THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Esprit Holdings Limited, you should at once pass this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

ESPRIT
esprit holdings limited

ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

MAJOR AND CONNECTED TRANSACTION

Independent financial adviser to the Independent Board Committee of ESPRIT HOLDINGS LIMITED

ROTHSCHILD

March 13, 2002

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In this circular, the following expressions have the following meanings unless the context otherwise requires:

"Announcement"	the announcement of the Company dated February 8, 2002
"Asset Acquisition Agreement"	the asset sale and purchase agreement made and entered into on February 7, 2002 between the Seller, the Seller's Group, Esprit Capital, the Company, Mr. Ying and Mr. Friedrich in relation to the sale and purchase of the Assets
"Assets"	the assets to be sold, transferred, conveyed and assigned by the Seller to Esprit Capital pursuant to the Asset Acquisition Agreement comprising, inter alia, the Principal Assets
"associates"	has the meaning ascribed to such a term in the Listing Rules
"Board"	the board of Directors
"Cerberus"	Cerberus International Ltd. and Cerberus Partners L.P.
"Circular" or "this circular"	this circular to the Shareholders dated March 13, 2002
"Closing"	completion of the sale and purchase of the Assets in accordance with the terms of the Asset Acquisition Agreement
"Company"	Esprit Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are currently listed on the main board of the Stock Exchange and secondarily listed on the London Stock Exchange
"Director(s)"	the director(s), including the independent non-executive directors, of the Company
"Enlarged Group"	the Group immediately following Closing
"Esprit Capital"	Esprit Capital Limited, a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands and unless the context otherwise requires, may include its assignee(s) for each right and obligation under the Asset Acquisition Agreement

"Esprit International"	Esprit International, a California limited partnership of which 37 per cent. interests is owned by the Seller and 63 per cent. interests is owned by members of the Group before Closing
"EUS"	Esprit Holdings Inc., a company incorporated in Delaware in which the Company owns approximately 5 per cent. with the remaining 95 per cent. directly or indirectly held or controlled by Oaktree and Cerberus
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent board committee of the Board comprising Mr. Alexander Reid HAMILTON, which has been formed to consider the terms of the Asset Acquisition Agreement
"Independent Valuer"	American Appraisal Hongkong Limited, an independent professional valuer
"Latest Practicable Date"	February 28, 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Friedrich"	Mr. Jürgen Alfred Rudolf FRIEDRICH, a non-executive Director of the Company
"Mr. Ying"	Mr. Michael YING Lee Yuen, an executive Director and Chairman of the Company
"Oaktree"	OCM Opportunities Fund, L.P., Columbia/HCA Master Retirement Trust (Oaktree Separate Account I), The Common Fund for Bond Investments, TCW Special Credits Fund IV, TCW Special Credits Plus Fund, TCW Special Credits Trust IV and TCW Special Credits Trust IVA

"Principal Assets"	the 37% limited partnership interests in Esprit International and the ESPRIT trademarks for use in the U.S. and the Caribbean Islands owned by the Seller, being part of the Assets to be sold by the Seller to Esprit Capital pursuant to the Asset Acquisition Agreement
"Proposed Acquisition"	the proposed acquisition of the Assets subject to and in accordance with the terms and conditions of the Asset Acquisition Agreement
"Rothschild"	N M Rothschild & Sons (Hong Kong) Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee in respect of the terms of the Asset Acquisition Agreement
"Seller"	Esprit de Corp., a company incorporated in California which is wholly-owned by EUS
"Seller's Group"	Oaktree, Cerberus and EUS
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s) "	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S."	United States of America
"US$"	United States dollars

For the purpose of this circular, unless otherwise indicated, an exchange rate of HK$7.8:US$1 has been used, where applicable, for the purpose of illustration only and no representation is made that any amount have been, could have been or may be exchanged, at such or any other rate, or at all.

ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Executive Directors:
Mr. Michael YING Lee Yuen *(Chairman)*
Mr. CHHIBBER Surinder *(Deputy Chairman)*
Mr. Heinz Jürgen KROGNER-KORNALIK
Mr. John POON Cho Ming
Ms. Connie WONG Chin Tzi

Non-executive Directors:
Mr. Jürgen Alfred Rudolf FRIEDRICH
Mr. Alexander Reid HAMILTON *
Mr. Simon LAI Sau Cheong *
Mr. Raymond OR Ching Fai *

* *Independent Non-executive Directors*

Registered Office:
Clarendon House
Church Street
Hamilton HM11
Bermuda

Principal Place of Business:
10/F, 11 Yuk Yat Street
Tokwawan
Kowloon
Hong Kong

March 13, 2002

To the Shareholders of the Company

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

It was announced by the Board on February 8, 2002 that the Company and its wholly-owned subsidiary, Esprit Capital, have entered into the Asset Acquisition Agreement on February 7, 2002 with, inter alia, the Seller and the Seller's Group pursuant to which the Assets will be acquired by Esprit Capital.

Since the Seller is a substantial shareholder holding 37 per cent. limited partnership interests in Esprit International which is a subsidiary of the Group, the Asset Acquisition Agreement constitutes a major and connected transaction for the Company under the Listing Rules that requires approval from the Shareholders. As at the Latest Practicable Date, Mr. Ying held approximately 43.8 per cent. of the issued share capital of the Company and Mr. Friedrich held approximately 9.9 per cent. of the issued share capital of the Company. As there are no special circumstances and relationship with the Seller and/or the Seller's Group which will lead to the interests of Mr. Ying and Mr. Friedrich as Shareholders of the Company being in any way different from that of the other Shareholders of the Company, they are entitled to vote on the transaction and they have given their written approval to the transaction. The Company has made an application to the Stock Exchange under the Listing Rules in relation to the acceptance of such written approval in lieu of a resolution to be passed at a Shareholders' meeting of the Company approving the transaction.

The purpose of this circular is to provide you with further details of the Asset Acquisition Agreement pursuant to the Listing Rules.

THE ASSET ACQUISITION AGREEMENT

Date: February 7, 2002.

Parties: (1) Seller, being a wholly-owned subsidiary of EUS;

(2) the Seller's Group, comprising the following:

(a) EUS, which is indirectly held as to approximately 5 per cent. by the Company with the remaining 95 per cent. directly or indirectly held or controlled by Oaktree and Cerberus;

(b) Oaktree;

(c) Cerberus;

(3) Esprit Capital;

(4) the Company; and

(5) Mr. Ying and Mr. Friedrich (solely for the purpose of approving the Asset Acquisition Agreement and the transactions contemplated therein and covenanting to vote in favour of the Asset Acquisition Agreement and the transactions contemplated therein at any Shareholders' meeting of the Company convened for the purpose of considering them).

Oaktree and Cerberus are independent third parties not connected with the Company, the Directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates (as defined in the Listing Rules).

Pursuant to the Asset Acquisition Agreement, the Seller will sell the Assets to Esprit Capital and Esprit Capital may assign its rights and obligations under the Asset Acquisition Agreement to one or more affiliated entity.

Details of the Assets

The Assets to be sold, transferred, conveyed and assigned by the Seller to Esprit Capital pursuant to the Asset Acquisition Agreement comprise:

(a) the Seller's 37 per cent. limited partnership interests in Esprit International;

(b) all intellectual property rights owned by the Seller which comprise various trademarks, unregistered marks, domain names, copyrights, websites, knowhow and customer lists, as more particularly described in the Asset Acquisition Agreement;

(c) leases and sub-leases of retail stores to which the Seller is a party which the Group may (but is not obliged to) elect to take over pursuant to the terms of the Asset Acquisition Agreement; and

(d) certain licence agreements relating to the use of the Seller's intellectual property rights referred to in paragraph (b) above, particulars of which are set out in the Asset Acquisition Agreement.

As at the Latest Practicable Date, no decision has been made as to whether any of the leases or sub-leases of retail stores referred to in paragraph (c) above will be taken over by the Group.

The consideration

The consideration pursuant to the Asset Acquisition Agreement is US$150 million (about HK$1,170 million) to be paid in one lump sum in cash upon Closing. The consideration has been arrived at after arm's length negotiation between Esprit Capital and the Seller taking into account, inter alia, the Board's assessment of the value of the 37 per cent. interests in Esprit International and the Board's assessment of the value of the various intellectual property rights to be sold by the Seller, including when such rights can be used and exploited on a uniform basis with the other related intellectual property rights concerning the ESPRIT brandname already held by the Group and the strategic value which the Proposed Acquisition would achieve through unifying the ESPRIT brandname.

The consideration represents a discount of approximately 21.1 per cent. to the fair market value of the Principal Assets as determined by the Independent Valuer to be US$190 million (approximately HK$1,482 million) as at January 31, 2002 based on an evaluation of the future economic benefits to be derived from the ownership of the Principal Assets. As noted by the Independent Valuer, the fair market value has not taken into account any anticipated synergies and strategic value of the Principal Assets to the Group. The Board is of the view that the consideration is fair and reasonable.

The consideration will be funded out of the internal resources of the Group and available banking facilities. It is currently anticipated that the banking facilities required will be about US$50 million (HK$390 million) with the balance of about US$100 million (HK$780 million) financed out of the internal resources of the Group. The Company does not anticipate any need to obtain new banking facilities to finance the consideration. Shareholders are referred to the section in this letter below headed "Financial Effects of the Proposed Acquisition".

Conditions precedent

Closing is subject to satisfaction or, to the extent permitted by the Asset Acquisition Agreement, waiver of various pre-conditions, the principal terms of which are summarised below:

(a) as regards the obligation of Esprit Capital to effect Closing:

(i) no order, injunction or other legal restraint preventing consummation of the Closing;

(ii) compliance by the Seller of the terms, covenants and conditions of the Asset Acquisition Agreement in all material respects and representations and warranties made by the Seller being true and correct in all material respects;

(iii) no government action in the U.S. preventing consummation of the transactions and termination or expiry of the waiting period under the U.S. Hart-Scott-Rodino Act;

(iv) consent of a lender to the Seller as specified in the Asset Acquisition Agreement having been obtained;

(v) the Company having issued a circular to and obtained the approval of a majority of the Shareholders regarding the Asset Acquisition Agreement in compliance with the Listing Rules; and

(b) as regards the obligations of the Seller to effect Closing:

(i) no order, injunction or other legal restraint preventing consummation of the Closing;

(ii) compliance by Esprit Capital of the terms, covenants and conditions of the Asset Acquisition Agreement in all material respects and representations and warranties made by Esprit Capital being true and correct in all material respects;

(iii) no government action in the U.S. preventing consummation of the transactions and termination or expiry of the waiting period under the U.S. Hart-Scott-Rodino Act.

Unless the Asset Acquisition Agreement is terminated, Closing will take place on the day that is two business days following satisfaction or waiver of the pre-conditions aforementioned provided that, unless the parties mutually agree otherwise, Closing must take place no later than April 30, 2002.

Termination

The Asset Acquisition Agreement may be terminated by mutual consent, by either party on account that the pre-conditions applicable to the other party have not been satisfied (unless the relevant conditions shall have failed to occur as a result of any act or omission by the party who wishes to terminate) by May 31, 2002 or on account of a breach of a representation, warranty or covenant in the manner as prescribed in the Asset Acquisition Agreement.

Other material terms

In addition to the above and other customary terms and warranties, the Asset Acquisition Agreement contains the following material terms:

(a) the Seller is entitled to a non-exclusive and royalty-free licence to use certain ESPRIT trademarks as more particularly set out in the Asset Acquisition Agreement solely in connection with advertising, distribution, import and export, and sale of the Seller's existing inventories and work-in-progress in the U.S. (including its territories and possessions) and the Caribbean Islands until September 15, 2002 and in Mexico until September 30, 2002. Any sale of the Seller's existing inventories and work-in-progress shall be conducted substantially in accordance with an operation plan as agreed with Esprit Capital and set out in the Asset Acquisition Agreement;

(b) on Closing:

  (i) the Seller and EUS shall execute a non-compete agreement in favour of Esprit Capital on Closing to the effect that the Seller shall not, nor shall it permit its affiliates to, inter alia, compete, directly or indirectly, with Esprit Capital or its affiliates in the apparel and apparel accessories business in the U.S. and the Caribbean Islands, for a period of two years after Closing;

  (ii) a release agreement will be executed between, inter alia, Esprit Capital and the Seller, releasing each other (including certain related or affiliated parties as set out in the release agreement) from all or any claims, actions, causes of action, obligations and liabilities as described in the release agreement;

(c) as soon as reasonably possible after Closing, the Seller shall implement various arrangements including an obligation to immediately discontinue, subject to the licence referred to in paragraph (a) above, its use of all names, trademarks and other forms of advertising relating to the name "ESPRIT" or any form thereof, and certain ESPRIT trademarks as more particularly set out in the Asset Acquisition Agreement;

(d) Esprit Capital on the one hand and the Seller and the Seller's Group on the other hand agree to indemnify and hold the other harmless from, inter alia, all damages, losses, liabilities and expenses as more particularly defined in the Asset Acquisition Agreement that the other party may actually incur directly as a result of the inaccuracy of the indemnifying party's representation or warranties or as a result of a material breach of any covenant or other provisions by the indemnifying party. The Company has agreed to be bound only by certain specific provisions in the Asset Acquisition Agreement including those provisions concerning indemnification by Esprit Capital. The Seller's Group has agreed to be bound only by certain specific provisions in the Asset Acquisition Agreement including the indemnification given by the Seller and the Seller's Group; and

(e) as disclosed in the interim results announcement by the Company dated February 7, 2002, in response to an objection by Esprit International to the Seller's recent move to distribute ESPRIT products through mass retailers, the Seller initiated a demand for arbitration and court proceedings in December 2001, which primarily alleged mismanagement of Esprit International. The Group has received legal advice to the effect that the claims are entirely without merit and have filed counterclaims against the Seller. The Asset Acquisition Agreement provides that such claims or proceedings will be stayed upon signing of the Asset Acquisition Agreement and that, upon Closing, such claims and proceedings will be dismissed.

INFORMATION ABOUT THE PRINCIPAL ASSETS

Esprit International is a California limited partnership which is 37 per cent. owned by the Seller with the remaining majority interest owned by the subsidiaries of the Company. A subsidiary of the Company is the general partner responsible for the management and day-to-day operation of the partnership.

Esprit International holds the rights to the ESPRIT trademarks across a variety of product classifications globally, other than the apparel trademarks in Germany held by another subsidiary within the Group and the U.S. and Caribbean Islands trademarks held by the Seller. In addition, the Seller granted licensing rights to Esprit International, expiring in the year 2050, for the manufacture, distribution and sale of all ESPRIT products other than apparel, accessories and footwear in the U.S.. Esprit International has entered into licensing agreements for the design, manufacture, distribution and sale of ESPRIT products worldwide using its trademarks rights.

Esprit International manages the ESPRIT trademarks internationally, maintains relationships with international licensees of the trademarks, which include the Group, and develops additional licensing opportunities in new geographical regions and product categories. Esprit International currently has over 10 licensees for products, including timewear, eyewear, jewelry, bed and bath products, homeware, toys and fragrances. Esprit International also manages brand consistency in terms of product design and marketing to ensure a unified global ESPRIT brand image.

Since the Company holds the majority interests in Esprit International, the financial statements of Esprit International have been consolidated into the Group's published financial statements. The Seller's 37 per cent. interests in Esprit International was accounted for under minority interests in the Group's consolidated financial statements.

A summary of the audited financial results of Esprit International for the three financial years ended June 30, 2001 and for the six months ended December 31, 2001, which has been extracted from the accountants' report set out in Appendix II of this circular, is set out below:

	Six months ended December 31, 2001	**Year ended June 30, 2001**	**2000**	**1999**
Turnover				
– US$ million	16.0	29.9	27.3	23.7
– equivalent to HK$ million	124.8	233.2	212.9	184.9
Operating profits				
– US$ million	13.4	25.1	23.1	18.5
– equivalent to HK$ million	104.5	195.8	180.2	144.3
Net profits				
– US$ million	13.1	24.4	22.6	17.9
– equivalent to HK$ million	102.2	190.3	176.3	139.6

Esprit International has turnover growth of 15.2 per cent. and 9.5 per cent. to approximately HK$212.9 million and approximately HK$233.2 million for the years ended June 30, 2000 and June 30, 2001 respectively. During the same period, net profits increased by 26.3 per cent. and 8.0 per cent. to approximately HK$176.3 million and approximately HK$190.3 million respectively. Net profits as percentage of turnover improved from 75.5 per cent. in the year ended June 30, 1999 to 81.6 per cent. in the year ended June 30, 2001. The strong growth in Esprit International was attributable to the strong growth in the Group's operations worldwide. For the six months ended December 31, 2001, net profit amounted to HK$102.2 million, corresponding to 81.9 per cent. of turnover of approximately HK$124.8 million.

Esprit International generated a positive net cash inflow from operating activities of approximately US$13.5 million (approximately HK$105.3 million) during the six months ended December 31, 2001 and approximately US$25.2 million (approximately HK$196.6 million) for the financial year ended June 30, 2001. The corresponding amounts for the financial years 2000 and 1999 were approximately US$22.4 million (approximately HK$174.7 million) and approximately US$20.2 million (approximately HK$157.6 million) respectively. As at December 31, 2001, Esprit International had approximately US$2.2 million in cash (approximately HK$17.2 million) and no interest bearing borrowings, contingent liability or material commitment.

As at December 31, 2001, the audited net assets of Esprit International, were approximately US$9.2 million (approximately HK$71.8 million).

The accountants' report and other financial information in relation to Esprit International are set out in Appendix II of this circular.

Since its establishment over 30 years ago, the ESPRIT brand is one of the most recognized brands in the U.S.. An independent market survey quoted in the Women's Wear Daily magazine in December 2001 ranked ESPRIT as the 52nd most recognizable brands in fashion in the U.S.. Products, including women's wear, kids' wear, accessories and footwear, are sold under the ESPRIT brandname through retail stores, outlet malls, selected discounters, department stores, catalogs and online in the U.S..

HISTORY OF THE ESPRIT BRAND

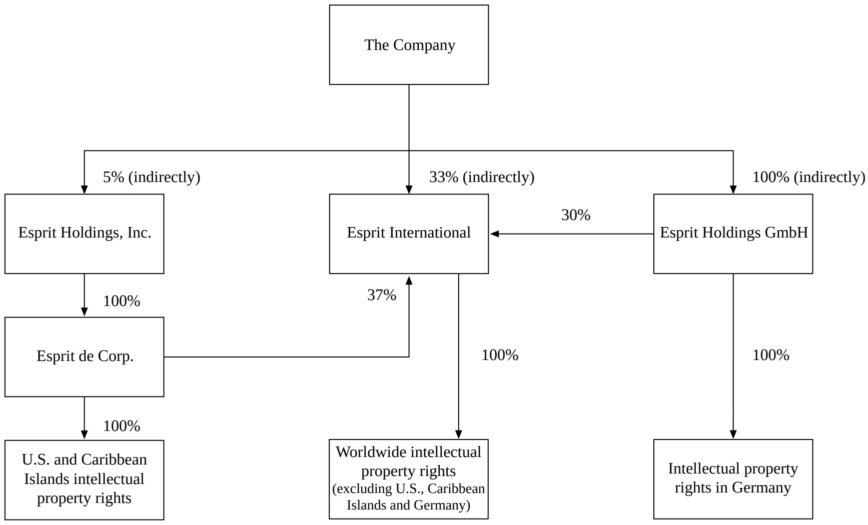
The ESPRIT brand first started in the U.S. in about the 1970's. Throughout the years, business expanded and products bearing the ESPRIT brandname were sold and distributed in Europe, Asia and other parts of the world.

When the Company was listed on the Stock Exchange in December 1993, its right to manufacture, distribute, promote and sell various products under the ESPRIT brandname was derived from a licence agreement concluded with Esprit International. At the time, Esprit International was entirely outside of the Group. As a licensee of Esprit International, the Company was only permitted to operate in certain Asian countries and certain territories in the Pacific and the Middle East.

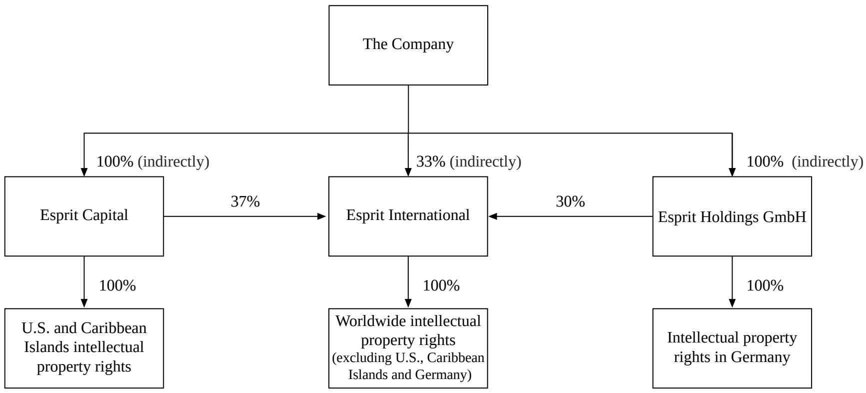
In January 1997, the Group acquired the European operations and businesses of ESPRIT products. This acquisition of the European operations and businesses opened a new page of the Group. Since that acquisition, the Group had benefited from significant operations and activities in Europe. Based on the interim results of the Group for the six months ended December 31, 2001, the turnover of the Group's European operations accounted for approximately 73 per cent. of the total turnover of the Group. The acquisition of the European operations and businesses in January 1997 also included a 63 per cent. interest in Esprit International. As a result of that acquisition, Esprit International became a subsidiary of the Group. The Group held 63 per cent. of Esprit International with the remaining 37 per cent. of Esprit International being held by the Seller. Although the Group had secured control of Esprit International, it does not own the intellectual property rights of the Seller in respect of the ESPRIT brandname for use in the U.S. and the Caribbean Islands.

The holding structure of the right of the ESPRIT brand immediately before and after the Proposed Acquisition (assuming Esprit Capital will not assign its rights and obligations under the Asset Acquisition Agreement to its affiliates) can be summarised as follows:

Pre-Acquisition



Post-Acquisition



Note: The information only illustrates the position immediately following Closing of the Proposed Acquisition. The Group is currently reviewing and may decide to change the manner in which the various intellectual property rights are to be held within the Group.

REASONS FOR THE TRANSACTION

The Board believes that the Proposed Acquisition represents an excellent opportunity at a fair and reasonable price for the Group to unify the ESPRIT brandname worldwide and to add a new dimension and growth for years to come.

The Proposed Acquisition will result in the global unification of the ESPRIT brandname, which will enhance Shareholder's value in the Board's view. This will enable the Group to pursue more aggressively licensing opportunities worldwide and to maximize the Enlarged Group's tax efficiency.

The Board believes that the Proposed Acquisition will open the way for the Group to build its own U.S. retail, wholesale and licensing business of ESPRIT products and tap into the vast U.S. consumer market. Not only will it enable the Group's operations to be diversified geographically, the Group will be able to enjoy significant synergies in terms of revenue and costs in developing its business in the U.S.. The U.S. operation can utilize the existing design, sourcing and image support departments and the head office for general corporate matters, resulting in greater economies of scale.

After Closing of the Proposed Acquisition, the Company will be able to eliminate the cash distribution to the Seller for its 37 per cent. interest in Esprit International, the majority of which have been generated from operations of the Group. In the financial year ended June 30, 2001, such distribution amounted to approximately HK$71.4 million. Furthermore, given the low interest rate environment, the Board strongly believes that the long-term return on the Proposed Acquisition will be significantly higher than the interest foregone on idle cash and additional interest expenses.

The Directors (including all independent non-executive Directors) consider that the Asset Acquisition Agreement is on normal commercial terms which are fair and reasonable and that it is in the interests of the Company to enter into the Asset Acquisition Agreement and to complete the Proposed Acquisition.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

The effect of the Proposed Acquisition on the earnings, cash flow, liquidity and net assets of the Group is set out in paragraphs (a) to (d) below respectively.

(a) Earnings

Closing of the Proposed Acquisition, assuming no contribution from the Assets except from the 37 per cent. interests of Esprit International and the guaranteed minimum royalties from certain licence agreements to be transferred, will have minimal immediate enhancement on the Enlarged Group's earnings, after taking into consideration of the elimination of the minority interests in Esprit International, additional interest expenses in association with the banking facilities to be utilized by the Group, foregone interest income associated with the portion of the consideration for the Proposed Acquisition to be financed by internal resources, the expected tax effects of the aforementioned and the increase in amortization of trademarks and goodwill to be acquired as part of the Proposed Acquisition. For the purpose of this Circular, in assessing the impact of the Proposed Acquisition on earnings, the Group has estimated the additional amortization of the trademarks by adopting the rebuttable presumption of a 20-year useful life based on Hong Kong Statements of Standard Accounting Practice. However, the Group is still reviewing such rebuttable presumption and may make appropiate adjustments in the future.

(b) Cash flow

Assuming no contribution from the Assets other than the 37 per cent. interests of Esprit International and the guaranteed minimum royalties from licence agreements to be transferred, the Proposed Acquisition would have enhanced the cash flow of the Enlarged Group for the financial year ended June 30, 2001 by approximately HK$51.8 million, assuming that Closing of the Proposed Acquisition was effected at the beginning of the financial year. The above has taken into consideration the related finance costs and tax effects as outlined in paragraph (a) above.

(c) Liquidity

The Group had a net cash position of HK$792.6 million (defined as cash and cash equivalents less interest bearing external borrowings) on December 31, 2001, without taking into account the Proposed Acquisition.

The pro forma net borrowings (calculated as interest bearing external borrowings less cash and cash equivalents) of the Enlarged Group as at December 31, 2001 assuming that the Closing of Proposed Acquisition was effected on that date and based on the anticipated borrowings from banks of the Enlarged Group as at that date, is expected to be about HK$397.9 million. It is the present intention of the Company to repay the bank borrowings from operating income to be generated by the Enlarged Group in the future.

Immediately upon Closing, the net debt to equity ratio of the Company (expressed as a percentage of interest bearing external borrowings less cash and cash equivalents over Shareholders' funds) is expected to be approximately 16 per cent. based on the pro forma net borrowings of the Enlarged Group compared to the pro forma Shareholders' funds as at December 31, 2001.

(d) Net assets

Closing of the Proposed Acquisition will have no impact on the net assets of the Group.

As regards the net tangible assets of the Enlarged Group, Appendix III to this Circular sets out the unaudited pro forma statement of adjusted net tangible assets of the Enlarged Group. On the basis set out therein, the unaudited pro forma adjusted net tangible asset value of the Enlarged Group immediately following Closing would be HK$604.6 million, equivalent to approximately HK$0.53 per Share, compared to the unaudited consolidated net tangible asset value of the Group as at December 31, 2001 of HK$1,773.6 million, equivalent to approximately HK$1.55 per Share, representing a decrease of approximately 66 per cent..

FUTURE PLAN AND PROSPECTS

Looking ahead to the rest of this financial year, the Board remains confident that the Enlarged Group will achieve turnover and net profit growth for the full financial year 2001/2002. Furthermore, the Board believes that there are a number of opportunities associated with the Proposed Acquisition that will enhance the future growth prospects of the Enlarged Group.

In terms of Esprit International's operations, the Enlarged Group intends to explore, even more aggressively, additional licensing opportunities by actively identifying suitable licensees in new markets and for new product categories. Furthermore, the Board believes that significant opportunities exist for licensing in the U.S..

The Enlarged Group has already assembled an internal team and will hire external consultant(s) to assist the Enlarged Group to formulate plans regarding the U.S. market. Within the next 3 to 6 months, the Enlarged Group will determine its business plan for the U.S., including the market positioning of the ESPRIT brand and the compatible distribution channel of ESPRIT products. On account of the Group's success in developing markets in Europe, the Group is confident that it can establish the appropriate business strategy in the U.S..

The Board believes that, based on these plans, the Enlarged Group has excellent prospects for growth and the Directors view the future with confidence.

GENERAL

The Group is principally engaged in the design, licensing, sourcing, wholesale and retail distribution of high quality fashion products under the internationally known ESPRIT brandname in Europe, Asia Pacific and Canada, together with Red Earth cosmetics, skin and general body care products.

The Asset Acquisition Agreement constitutes a major and connected transaction for the Company under the Listing Rules that require approval from the Shareholders. The audited consolidated net asset value of the Group as at June 30, 2001 (after restatement on adoption of Hong Kong Statement of Standard Accounting Practice 9 (revised) : Events after the balance sheet date as more particularly disclosed in the interim results announcement of the Company dated February 7, 2002) was approximately HK$2,181 million and the consideration of US$150 million (approximately HK$1,170 million) payable by the Company under the Asset Acquisition Agreement accounts for approximately 54 per cent. of the audited consolidated net asset value of the Group. The Company has announced on February 7, 2002 its results for the six months ended December 31, 2001 during which the Group recorded net profit after tax and minority interests of approximately HK$385 million. In addition, the transaction will be regarded as a connected transaction on account of the Seller being a substantial shareholder (within the meaning of the Listing Rules) holding 37 per cent. limited partnership interests in Esprit International which is a subsidiary of the Group.

Mr. Ying, who, as at the Latest Practicable Date, held approximately 43.8 per cent. of the issued share capital of the Company, and Mr. Friedrich, who, as at the Latest Practicable Date, held approximately 9.9 per cent. of the issued share capital of the Company, are entitled to vote on the transaction because their interests are the same as those of the other Shareholders of the Company. As they have given their written approval to the transaction, the Company has made an application to the Stock Exchange under the Listing Rules in relation to the acceptance of such written approval in lieu of a resolution to be passed at a Shareholders' meeting of the Company approving the transaction.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 14 of this circular which contains the Independent Board Committee's recommendation to the Shareholders, and the letter received from Rothschild set out on pages 15 to 21 of this circular which contains its advice to the Independent Board Committee, in relation to the Proposed Acquisition.

The Independent Board Committee, having taken into account the advice of Rothschild, considers the terms of the Asset Acquisition Agreement fair and reasonable so far as the Company and the Shareholders are concerned.

ADDITIONAL INFORMATION

Your attention is drawn to the further information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Esprit Holdings Limited
John Poon Cho Ming
Executive Director

esprit holdings limited

ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

March 13, 2002

To the Shareholders of the Company

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

I refer to the Circular of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

As an independent director of the Company, I have been appointed by the Board to advise you as to whether, in my opinion, the terms of the Asset Acquisition Agreement are fair and reasonable so far as the Company and the Shareholders are concerned.

For the purpose of considering the composition of the Independent Board Committee, two out of the three existing independent Directors of the Company consider that there may be perceived issues concerning their independence in the context of advising Shareholders on the Proposed Acquisition. In respect of Mr. Raymond Or Ching Fai, perceived issues concerning independence may arise on account of his office in The Hongkong and Shanghai Banking Corporation Limited. The Hongkong and Shanghai Banking Corporation is a principal banker of the Group. In the case of Mr. Simon Lai Sau Cheong, he is the partner of Deacons who has been advising the Company on certain aspects of the Proposed Acquisition in relation to Hong Kong laws. As a result, I have been appointed as the sole member of the Independent Board Committee to advise the Shareholders on the Proposed Acquisition. Rothschild has been appointed as the independent financial adviser to advise me in relation to the Proposed Acquisition.

I wish to draw your attention to the letter from Rothschild as set out on pages 15 to 21 of the Circular. I have considered the terms and the conditions of the Asset Acquisition Agreement, the advice of Rothschild and the various factors contained in the letter from the Board set out on pages 1 to 13 of the Circular. In my opinion, the terms and conditions of the Asset Acquisition Agreement are fair and reasonable so far as the Company and the Shareholders are concerned and the Proposed Acquisition is in the commercial interests of the Company. I have also discussed the Proposed Acquisition with Mr. Raymond Or Ching Fai and Mr. Simon Lai Sau Cheong in detail and they both agree with my view.

Yours faithfully,
Alexander Reid Hamilton
Independent Board Committee of
Esprit Holdings Limited

The following is the full text of a letter of advice to the Independent Board Committee from Rothschild for inclusion in this circular.

N M Rothschild & Sons (Hong Kong) Limited
16th Floor
Alexandra House
Central
Hong Kong

March 13, 2002

To the Independent Board Committee of
Esprit Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

We refer to the Asset Acquisition Agreement, details of which are contained in the Circular of which this letter forms part. Rothschild has been appointed as independent financial adviser by the Company to advise the Independent Board Committee as to whether or not the terms of the Asset Acquisition Agreement are fair and reasonable.

The terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

Pursuant to the Listing Rules, the Asset Acquisition Agreement constitutes a major and connected transaction for the Company. Mr. Ying and Mr. Friedrich, who owned approximately 43.8 per cent. and 9.9 per cent. of the issued share capital of the Company respectively as at the Latest Practicable Date, are parties to the Asset Acquisition Agreement solely for the purpose of approving and covenanting to vote in favour of such agreement and the transactions contemplated therein at any Shareholders' meeting of the Company convened for the purpose of considering such agreement and transactions. Accordingly, both Mr. Ying and Mr. Friedrich are entitled to vote and have given their written approval in relation to the Asset Acquisition Agreement. The Company has therefore made an application to the Stock Exchange under the Listing Rules in respect of the acceptance of such written approval in lieu of a resolution to be passed at a Shareholders' meeting of the Company for approving the Asset Acquisition Agreement.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company and have assumed that any representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Circular, including the valuation conducted by the Independent Valuer (and information and representations made to the Independent Valuer are true and accurate or based on reasonable estimates in all respects) are fair and reasonable and have relied on them.

We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts the omission of which would make any statement in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group and the Assets to be acquired under the Asset Acquisition Agreement.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background and rationale

As noted in the "Letter from the Board", the Group currently owns all international intellectual property rights in respect of the ESPRIT brandname across a variety of product classifications, except for certain rights for use in the U.S. and the Caribbean Islands. These are currently held by the Seller, a company in which the Group has an indirect attributable interest of approximately five per cent.. Upon completion of the Asset Acquisition Agreement, the Enlarged Group will become the sole owner of all international intellectual property rights of the ESPRIT brandname across a variety of product classifications and will be able to eliminate the cash distribution to the Seller for its 37 per cent. interests in Esprit International. Further details of the holding structure of the rights of the ESPRIT brandname before and after the Proposed Acquisition are set out in the section headed "History of the ESPRIT Brand" in the "Letter from the Board".

The Board believes that the Proposed Acquisition is strategically important and represents an excellent opportunity for the Group to unify the ESPRIT brandname globally and provide a new dimension for growth in future years. The Board also believes that, as a result of the Proposed Acquisition, the Enlarged Group will be able to pursue more aggressively licensing opportunities worldwide and maximise the Enlarged Group's tax efficiency.

In addition, the Board is of the view that the Proposed Acquisition provides an excellent opportunity for the Group to diversify its operations geographically by building its own U.S. retail, wholesale and licensing business for ESPRIT products and capitalise on the large U.S. consumer market. The Board believes that the Enlarged Group will be able to enjoy significant synergies in terms of revenue and costs in developing its U.S. business as the U.S. operation can utilise the Group's existing design, sourcing and image support departments and the Group's head office for general corporate matters, resulting in greater economies of scale.

As disclosed in the section headed "Future Plan and Prospects" in the "Letter from the Board", the Group intends to replicate its success in Europe with the U.S. operation. The Group has assembled an internal team, and will hire external consultant(s) to assist it, to formulate plans regarding the U.S. market. The Board anticipates that the business plan for the U.S. will be formulated within the next three to six months and is confident that the Enlarged Group will have excellent prospects for growth as a result of the Closing of the Proposed Acquisition.

2. The Proposed Acquisition

(i) Assets to be acquired

The Assets to be sold, transferred, conveyed and assigned by the Seller to the Group comprise:

(a) the Seller's 37 per cent. limited partnership interests in Esprit International;

(b) all intellectual property rights owned by the Seller which comprise various trademarks, unregistered marks, domain names, copyrights, websites, knowhow and customer lists, as more particularly described in the Asset Acquisition Agreement;

(c) leases and sub-leases of retail stores to which the Seller is a party which the Group may (but is not obliged to) elect to take over pursuant to the terms of the Asset Acquisition Agreement; and

(d) certain licensing agreements in relation to the use of the Seller's intellectual property rights as referred to in (b) above, particulars of which are set out in the Asset Acquisition Agreement.

Esprit International is a California limited partnership which is currently owned as to 63 per cent. by the Group and the remaining 37 per cent. by the Seller. It holds the rights to the ESPRIT trademarks across a variety of product classifications globally, other than the apparel trademarks in Germany held by another subsidiary of the Company and the U.S. and Caribbean Islands trademarks held by the Seller. Esprit International principally generates its revenue from collection of royalties and licensing fees under licensing agreements for the design, manufacture, distribution and sale of products using the ESPRIT trademarks. In addition, the Seller granted licensing rights to Esprit International, expiring in the year 2050, for the manufacture, distribution and sale of all ESPRIT products other than apparel, accessories and footwear in the U.S.. Further details on Esprit International are set out in the section headed "Information about the Principal Assets" in the "Letter from the Board".

We summarise below the audited financial results of Esprit International for the past three financial years ended June 30, 2001 and for the six months ended December 31, 2001, which are extracted from the accountants' report on Esprit International as set out in Appendix II to the Circular.

	Six months ended December 31, 2001	Year ended June 30, 2001	2000	1999
Turnover				
– US$ million	16.0	29.9	27.3	23.7
– equivalent to HK$ million	124.8	233.2	212.9	184.9
Operating profits				
– US$ million	13.4	25.1	23.1	18.5
– equivalent to HK$ million	104.5	195.8	180.2	144.3
Net profits				
– US$ million	13.1	24.4	22.6	17.9
– equivalent to HK$ million	102.2	190.3	176.3	139.6

The audited net asset value of Esprit International as at December 31, 2001 was approximately US$9.2 million (approximately HK$71.8 million).

The other assets to be acquired under the Asset Acquisition Agreement include all intellectual property rights in the U.S. and the Caribbean Islands owned by the Seller under the ESPRIT brandname, details of which are set out in the valuation report in Appendix I to the Circular.

(ii) Consideration

The total consideration for the Assets is US$150 million (approximately HK$1,170 million) which will be payable in cash upon Closing of the Asset Acquisition Agreement.

From our discussion with the management of the Group, we understand that the Asset Acquisition Agreement was entered into after arm's length negotiations between the Group and the Seller. The total consideration of US$150 million for the Assets was determined having considered, inter alia, the Board's assessment of the value of the 37 per cent. interests of Esprit International and the value of the various intellectual property rights to be sold by the Seller, including when such rights can be used and exploited on a uniform basis with the other related intellectual property rights concerning the ESPRIT brandname already held by the Group and the strategic value which the Proposed Acquisition would achieve through unifying the ESPRIT brandname.

The Principal Assets have been valued by the Independent Valuer at US$190 million (approximately HK$1,482 million) as at January 31, 2002. The total consideration of US$150 million for the Assets represents a discount of approximately 21.1 per cent. to such valuation. A copy of the valuation report which expresses an independent opinion of the fair market value of the Principal Assets as of January 31, 2002, based on an evaluation of the future economic benefits to be derived from the ownership of the Principal Assets, and also contains further details of the Assets is set out in Appendix I to the Circular. It should be noted that the Independent Valuer has not taken into account any expected synergies and strategic value of the Principal Assets to the Group in conducting its valuation.

The total consideration of US$150 million represents 16.6 times the net profits attributable to the 37 per cent. interests of Esprit International for the financial year ended June 30, 2001. It also represents an enterprise value/earnings before interest, tax, depreciation and amortisation ("EV/EBITDA") of 15.7 times of the 37 per cent. interests of Esprit International for the same year. We have reviewed the historic price earnings ratios and EV/EBITDA multiples of other listed international companies comparable to Esprit International and consider that the acquisition multiples are in line with the market trading multiples. It should be noted that this comparison assumes no value is being attributed to the other assets being acquired under the Asset Acquisition Agreement, particularly the various trademarks to be acquired which will give the Enlarged Group the right to, inter alia, manufacture and distribute ESPRIT products in the U.S. and the Carribean Islands.

(iii) Conditions precedent

As noted in the "Letter from the Board", Closing is conditional upon fulfillment or, to the extent permitted under the Asset Acquisition Agreement, waiver of various pre-conditions, including the compliance by the Group and the Seller of the terms, covenants and conditions of the Asset Acquisition Agreement in all material aspects and representations and warranties made by the Group and the Seller being true and correct in all material respects, further details of which are set out in the section headed "Conditions precedent" in the "Letter from the Board". Unless both parties mutually agree, Closing must take place no later than April 30, 2002.

(iv) Other material terms

As also noted in the "Letter from the Board", the Asset Acquisition Agreement contains various other material terms including the entitlement of the Seller to a non-exclusive and royalty-free licence to use certain ESPRIT trademarks for advertising and sale of its existing inventories in the U.S. and the Caribbean Islands until September 15, 2002 and in Mexico until September 30, 2002. It also contains a non-compete agreement in favour of the Group in respect of the apparel and apparel accessories business in the U.S. and the Caribbean Islands for a period of two years after Closing. Further details of these terms are set out in the section headed "Other material terms" in the "Letter from the Board".

3. Financial effects of the Proposed Acquisition

(i) Earnings and cashflow

As noted in the "Letter from the Board", the Board estimates that the Proposed Acquisition, on a pro forma basis, would have minimal immediate enhancement on the earnings of the Enlarged Group. This is based on the assumption that there would be no contribution from the Assets other than the 37 per cent. interests of Esprit International but after taking into account the guaranteed minimum royalties from the licensing agreements to be transferred under the Asset Acquisition Agreement, the increase in net interest and amortisation expenses together with the related tax effects, and the increase in the Enlarged Group's share of Esprit International's profit from 63 per cent. to 100 per cent. after completion of the Proposed Acquisition.

The net cashflow of the Enlarged Group, on a pro forma basis and under the same set of assumptions, would have increased by approximately HK$51.8 million for the financial year ended June 30, 2001.

(ii) Net assets

There would be no change in the net asset value of the Enlarged Group as a result of the Proposed Acquisition. However, the Enlarged Group will record additional intangible assets of approximately HK$1,169 million, in aggregate, representing the difference between the total consideration paid under the Asset Acquisition Agreement and the book value of the tangible assets to be acquired. Accordingly, the net tangible assets of the Enlarged Group would reduce by HK$1,169 million from approximately HK$1,773.6 million as at December 31, 2001 to approximately HK$604.6 million immediately after completion of the Proposed Acquisition. However, we do not consider net tangible asset backing as an important valuation parameter for branded apparel retailers and wholesalers.

(iii) Gearing and interest coverage

The Group had net cash, defined as cash and cash equivalents less interest bearing external borrowings, of HK$792.6 million in hand as at December 31, 2001. Upon completion of the Proposed Acquisition, and on a pro forma basis, the gearing ratio of the Enlarged Group, defined as net debts (interest bearing external borrowings less cash and cash equivalents) divided by Shareholders' funds, would increase to approximately 16 per cent.. The interest coverage ratio would reduce from approximately 35 times to 27.7 times for the financial year ended June 30, 2001, and from approximately 416.3 times to 114.6 times for the six months ended December 31, 2001. We have reviewed the gearing and interest coverage ratios of other listed international companies comparable to the Group and consider that the gearing and interest coverage of the Enlarged Group after completion of the Proposed Acquisition would remain in line with other listed international companies comparable to the Group.

RECOMMENDATION

Having considered the above principal factors and reasons, including the rationale for the Proposed Acquisition and the synergies the Board believes the Enlarged Group should be able to generate, we consider the terms of the Asset Acquisition Agreement to be fair and reasonable.

Yours very truly,
For and on behalf of
N M Rothschild & Sons (Hong Kong) Limited

Kelvin Chau — *Director*
Mark Broadley — *Director*

The following is the text of a letter with summary of value prepared for the purpose of incorporation in this circular, received from the Independent Valuer, in connection with their valuation as at January 31, 2002 of the Assets:

American Appraisal Hongkong Limited

Suite 2901, 29/F
Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Telephone (852) 2511 5200
Facsimile (852) 2511 9626

March 13, 2002

The Board of Directors
Esprit Holdings Limited
10/F., 11 Yuk Yat Street,
Tokwawan, Kowloon,
Hong Kong

Dear Sirs,

In accordance with your instructions, we have made an appraisal of the fair market value of the Principal Assets to be acquired by Esprit Holdings Limited ("the Company") pursuant to the Asset Acquisition Agreement as defined in the press announcement made by the Company on February 8, 2002. This appraisal comprises two parts. The first part is an appraisal of the intellectual property rights owned by Esprit de Corp. ("the Seller") which comprises various trademarks for use in the United States ("U.S.") and the Caribbean Islands ("Acquired Trademarks"), unregistered marks, domain names, copyrights, websites, knowhow and customer lists (collectively "the Intangibles"). The second part is an appraisal of a 37 per cent. limited partnership interests ("EI Interests") in the business enterprise of Esprit International ("EI"). EI is a limited partnership, which owns the rights to the ESPRIT trademarks for apparel, shoes and accessories outside U.S., the Caribbean Islands and Germany.

This letter identifies the business and the intangible assets appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value.

Business enterprise value is defined for this appraisal as the total invested capital, excluding debts but including shareholders' loans, and is equivalent to shareholders' equity plus shareholders' loans. The fair market value of the 37 per cent. limited partnership interests in the business enterprise of EI is derived based on the expected free cash flows to which the owner(s) of the partnership will effectively be entitled to after accounting for the effects of the minority discount and the lack of marketability discount.

The purpose of this appraisal is to express an independent opinion of the fair market values of the Intangibles and the EI Interests as of January 31, 2002. It is our understanding that this appraisal will be used for acquisition purposes and our valuation report will be incorporated in a public document. However, we have not taken into consideration the expected synergies and strategic value of these assets to the Company and its subsidiaries (collectively the "Group") in conducting our valuation exercise.

INTRODUCTION

The Group is a group of international companies which design and source apparel, accessories and other products and distribute them under the ESPRIT brand internationally. The Group currently owns international intellectual property rights in respect of the ESPRIT brandname, except certain rights for use in the U.S. and the Caribbean Islands which are held outside of the Group by the Seller in which the Company has an indirect attributable interest of approximately 5 per cent..

The existing intellectual property rights of the Group in respect of the ESPRIT brandname are principally held by EI which is a limited partnership organized under the laws of California. The Company indirectly holds 63 per cent. of EI and the Seller owns the other 37 per cent. of EI in its capacity as a limited partner.

The Group has entered into an acquisition agreement in which the Group will acquire from the Seller of:

1. the Seller's 37 per cent. limited partnership interests in EI;

2. all intellectual property rights owned by the Seller which comprise various trademarks, unregistered marks, domain names, copyrights, websites, knowhow and customer lists;

3. leases and sub-leases of retail stores to which the Seller is a party which the Group may (but is not obliged to) elect to take over; and

4. certain licence agreements relating to the use of the Seller's intellectual property rights referred to in paragraph (2) above.

If the proposed acquisition is approved by all relevant parties, it will result in the global unification of the ESPRIT brand.

BASIS OF VALUATION AND ASSUMPTIONS

We have been asked to evaluate the future economic benefits to be derived from ownership of the Intangibles and EI Interests. We have therefore applied the relief-from-royalty approach and income approach to determine the fair market values of the Intangibles and EI Interests respectively. For the purpose of this valuation we were furnished by the management of the Company with the financial projections (the "Projections") of the business related to the Intangibles ("Intangibles Business") and EI which have been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the management of the Company, and the audited financial statements of EI and the financial information related to the Intangibles Business.

We have appraised the Intangibles and the EI Interests on the basis of fair market value. *Fair market value* is defined as the estimated amount at which the interest might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business at its present location for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

Our investigation included discussions with the management of the Company in relation to the history and nature of the business of EI and the Intangibles Business; a study of the Projections; a review of the financial statements of EI and the financial information related to the Intangibles Business as aforementioned and other information provided by the management of the Company. We have assumed that such information, opinions and representation provided to us by the Company were true, accurate or based on reasonable estimates which have been arrived at after due and careful consideration by the management of the Company. Before arriving at our opinion of value, we have considered the following principal factors:

– the nature and the prospects of the worldwide apparel business;

– the financial condition of EI and Intangibles Business;

– worldwide economic outlook in general and the specific economic and competitive elements affecting EI's business and the Intangibles Business;

– the specific economic and competitive elements affecting apparel industry and market;

– the market-derived investment returns of entities engaged in a similar line of business and in similar markets;

– the business risks of EI and the Intangibles Business; and

– the financial projections and the financial statements of EI and the financial information related to the Intangibles Business.

Due to the changing environment in which EI and the Intangibles Business are operating, a number of assumptions have to be established in order to sufficiently support our concluded values of the Intangibles and the EI Interests. The major assumptions adopted in this appraisal are:

– there will be no major change in the existing political and legal conditions in the countries in which EI's business and the Intangibles Business operate;

- there will be no major change in the current taxation law in the countries that related to EI's business and the Intangibles Business, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

- all material contracts or agreements related to EI and the Intangibles Business are legal, valid and enforceable in accordance with the applicable laws;

- all existing licensing agreements of EI will be renewed or replaced upon expiry;

- those licensing agreements relating to the use of the Intangibles that will be acquired by the Company pursuant to the Asset Acquisition Agreement as defined in the press announcement made by the Company on February 8, 2002 will be renewed or replaced upon expiry;

- exchange rates and interest rates will not differ materially from those presently prevailing;

- the availability of finance will not be a constraint on the forecast growth of EI's and the Intangibles Business's operation in accordance to the Projections;

- the Projections have been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the management of the Company;

- the financial statements of EI and the financial information related to the Intangibles Business as aforementioned respectively contain financial information attributable to EI and the Intangibles only;

- EI and the Intangibles Business will be able to recruit competent management, key personnel, and technical staff to implement their business plans and to support their ongoing operations; and

- industry trends and market conditions for related industries in the world will not deviate significantly from economic forecasts.

VALUATION METHODOLOGY

This appraisal comprises two parts. Firstly, the Company requires our opinion on the fair market value of the Intangibles owned by the Seller. Secondly, the Company requires our opinion on the fair market value of the EI Interests. Regarding the appraisal of the Intangibles, we have been advised by the Company that besides the Acquired Trademarks, other components of the Intangibles, such as unregistered marks, domain names, copyrights, websites, knowhow and customer lists, have been generating insignificant definable revenue. Therefore, our appraisal of the Intangibles is based on the revenue stream that is mainly attributable to the Acquired Trademarks.

Valuation of the Intangibles

In valuing the Acquired Trademarks, the relief-from-royalty approach is deemed appropriate. Under the relief-from-royalty approach, an asset is valued based upon the incremental after-tax cash flow accruing to the owner by virtue of the fact that the owner does not have to pay a "fair royalty" to a third party for the use of that asset. Accordingly, a portion of the owner's earnings, equal to the after-tax royalty that would have been paid for use of the Acquired Trademarks can be attributed to the Acquired Trademarks. The value of the Acquired Trademarks depends on the present worth of future after-tax royalties derived from ownership. Thus, indications of value are developed by discounting future after-tax royalties attributable to the Acquired Trademarks to their present worth at market-derived rates of return appropriate for the risks of the Acquired Trademarks.

We considered various alternatives in determination of the "fair royalty" rate for the Acquired Trademarks. The best evidence is to inquire whether the Seller and the Group, as respective owners of the ESPRIT trademarks in different parts of the world, have granted any licences to other companies to use the ESPRIT trademark. There are a number of licensees under the Seller and EI. Therefore we applied the average of the actual royalty rates in our valuation of the Acquired Trademarks.

A discount rate is applied, which represents the total expected rate of return that an investor would demand on the purchase price for an ownership interest in an asset, given the level of risk inherent in that ownership interest. When developing a discount rate to apply to the cash flow streams attributable to the Acquired Trademarks, the discount rate is the weighted average cost of equity, cost of debt and the intangible asset premium. The cost of equity is the expected rate of return that an investor would demand for investing in a business enterprise given the risks of the investment. The intangible asset premium is the additional rate of return demanded by investor by investing in the intangible asset only, but not the entire business. The rationale behind is that a business is composed of several categories of assets, of varying degrees of liquidity and risk. An investor theoretically would accept a lower rate of return on the less risky, more liquid assets, such as account receivable, but would require a higher return on intangible assets, such as trademark. In arriving at the discount rate for the Acquired Trademarks, we have assessed the intangible asset premium on the basis that intangible assets like the Acquired Trademarks are generally viewed as more risky than the business enterprise itself. The method to derive the cost of equity is explained below.

Valuation of EI

The fair market value of the business enterprise of EI was developed through the application of the income approach technique known as the discounted cash flow method. In this method, value depends on the present worth of future economic benefits to be derived from ownership of shareholders' equity and shareholders' loans. Thus, indications of value were developed by discounting future free cash flows available for distribution to shareholders and for servicing shareholders' loans to their present worth at market-derived rates of return appropriate for the risks and hazards of the project.

When developing the discount rate to apply to the future economic income streams attributable to shareholders, the discount rate is the cost of equity. The cost of equity was developed using Capital Asset Pricing Model ("CAPM"). CAPM states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated with the return from the stock market are referred to as systematic; other risks are referred to as non-systematic. Under CAPM, the appropriate rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the systematic risk assumed.

Under the income approach, a freely traded value of the business enterprise was determined. A freely traded value contains no reduction in value even though the business enterprise is of a private nature. To arrive at the fair market value of EI, adjustments to the value determined from the income approach have been made.

Premium for Control and Discount for Minority

Control premium is the additional value inherent in the controlling interest, as contrasted to a minority interest, that reflects its power of control. The thousands of daily transaction on stock exchanges are, of course, minority interest transactions. Each year, a controlling interest in a few hundred of these public companies is purchased. In almost all cases, the prices paid for the stock of these companies represent a premium over the market price at which the stock previously traded as a minority interest. Several studies follow these acquisitions in the U.S. and publish data on the control premiums. Viewed from the flip side, a minority discount should be applied if the interest being appraised represents a minority interest.

Discount for Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in a closely held company are typically not readily marketable compared to similar interests in a public company. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

A number of studies were conducted in the U.S. in an attempt to determine average levels of discounts for lack of marketability. These studies all fall into one of two basic categories, depending on the type of market transaction data on which they are based:

- Restricted (“letter”) stock studies
- Studies of transactions in closely held stocks prior to initial public offerings (IPOs).

OTHER CONSIDERATIONS

Readers of this report should note that this valuation does not cover all of the assets to be acquired by the Company pursuant to the Asset Acquisition Agreement as defined in the press announcement made by the Company on February 8, 2002. In this appraisal engagement we have not appraised the leases and sub-leases of retail stores (“the Leases”) to which the Seller is a party and which the Group may (but is not obliged to) elect to take over. As at the Latest Practicable Date, the Group has not decided yet whether to take over the Leases. Hence, we have not carried out a valuation for the assignment of the Leases.

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal methods employed, it is our opinion that as of January 31, 2002, the total fair market value of the Intangibles and the EI Interests is reasonably stated by the amount of US DOLLAR ONE HUNDRED NINTY MILLION (US$190,000,000) only.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the Group, the Seller or the value reported.

Respectfully submitted,
For and on behalf of
AMERICAN APPRAISAL HONGKONG LIMITED
Raymond E Moran, ASA
Senior Vice President

The following is the text of a report, prepared for the purpose of incorporation in this circular, from the reporting accountants of Esprit International, PricewaterhouseCoopers.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
Telephone: (852) 2289 8888
Facsimile: (852) 2810 9888

March 13, 2002

The Directors
Esprit Holdings Limited
N M Rothschild & Sons (Hong Kong) Limited

Dear Sirs

We set out below our report on the financial information relating to Esprit International (the "Partnership") for each of the three years ended June 30, 1999, 2000, 2001 and for the six months ended December 31, 2001 ("the Relevant Periods") for inclusion in the circular to the shareholders of Esprit Holdings Limited ("EHL") dated March 13, 2002 (the "Circular") in connection with the proposed acquisition of an additional 37% limited partnership interest in the Partnership, the intellectual property rights held by Esprit de Corp. ("EDC"), the right of election to take over the leases and sub-leases of retail stores to which EDC is a party and certain licence agreements.

The Partnership was formed as a Californian general partnership on July 1, 1983 and restructured as a limited partnership on July 1, 1988. The Partnership has two limited partners: Esprit (Holdings II) B.V. ("Esprit B.V."), a wholly owned subsidiary of EHL organized in the Netherlands, holding 33% limited partnership interests and EDC, a Californian corporation, holding 37% limited partnership interests. The remaining interests of 30% are held by another wholly owned subsidiary of EHL, Esprit Holdings GmbH ("Esprit GmbH"), a German limited company which is the general partner of the Partnership. Esprit GmbH became the general partner of the Partnership subsequent to the merger of Esprit de Corp GmbH, a wholly owned subsidiary of EHL, and Esprit GmbH on June 16, 2000.

We have acted as auditors of the Partnership for the Relevant Periods.

The financial information as set out in Sections I to VIII below, including the results and cash flow statements of the Partnership for the Relevant Periods, the balance sheets of the Partnership as at June 30, 1999, 2000, 2001 and December 31, 2001 and the notes thereto ("Financial Information"), has been prepared based on the audited financial statements of the Partnership or, where appropriate, the management financial statements of the Partnership, on the basis set out in Section VI(1) below, after making such adjustments as are appropriate. The Partnership's management is responsible for preparing these financial statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

The audited financial statements or management financial statements of the Partnership were prepared in accordance with accounting principles generally accepted in the United States of America ("USGAAP"). We have examined the audited financial statements or, where appropriate, management financial statements of the Partnership for the Relevant Periods, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants ("HKSA"). For the purpose of this report, appropriate adjustments have been made to the Financial Information to ensure that they comply with accounting principles generally accepted in Hong Kong ("HKGAAP").

The Partnership's management is responsible for the Financial Information. It is our responsibility, as reporting accountants to form an independent opinion on the Financial Information.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in Section VI(1) below, gives a true and fair view of the results and cash flows of the Partnership for the Relevant Periods and of the balance sheets of the Partnership as at June 30, 1999, 2000, 2001 and December 31, 2001.

I. Results

The following is a summary of the results of the Partnership for the Relevant Periods prepared on the basis set out in Section VI(1) below:

	Section VI *Note*	**Six months ended December 31, 2001**	**Year ended June 30, 2001**	**2000**	**1999**
		US$	*US$*	*US$*	*US$*
Turnover	*3*	15,981,100	29,871,200	27,258,100	23,748,800
Other revenues	*3*	40,600	149,500	115,500	115,900
Administrative expenses					
Staff costs		(131,300)	(397,500)	(744,800)	(780,100)
Depreciation and amortization		(323,500)	(687,000)	(791,400)	(907,000)
Other operating costs		(1,543,900)	(2,745,100)	(2,034,300)	(3,401,900)
Business tax	*4*	(607,300)	(1,135,100)	(671,700)	(307,000)
Operating profits	*6*	13,415,700	25,056,000	23,131,400	18,468,700
Taxation	*4*	(319,600)	(646,400)	(559,800)	(535,900)
Net profits		13,096,100	24,409,600	22,571,600	17,932,800

II. Balance Sheets

The following is a summary of the balance sheets of the Partnership as at June 30, 1999, 2000, 2001 and December 31, 2001 prepared on the basis set out in Section VI(1) below:

	Section VI *Note*	As at December 31, 2001 *US$*	As at June 30, 2001 *US$*	2000 *US$*	1999 *US$*
Fixed assets	*7*	27,500	50,700	100,300	143,800
Trademarks	*8*	1,710,200	1,996,500	2,464,500	2,521,200
Current assets					
Trade receivables	*9*	919,800	1,237,000	1,852,500	1,410,900
Other receivables		30,700	30,400	45,400	1,100
Amounts due from related companies	*10*	4,897,700	4,613,600	3,799,100	2,909,900
Amounts due from partners	*11*	624,000	501,800	341,700	675,300
Bank balances and cash		2,195,700	1,224,600	1,573,300	1,319,100
		8,667,900	7,607,400	7,612,000	6,316,300
Current liabilities					
Accruals and receipts in advance		589,500	578,600	1,076,400	461,300
Business tax payable		567,400	360,100	–	307,000
Amounts due to related companies	*10*	69,100	407,900	452,700	1,205,200
		1,226,000	1,346,600	1,529,100	1,973,500
Net current assets		7,441,900	6,260,800	6,082,900	4,342,800
Total assets less current liabilities		9,179,600	8,308,000	8,647,700	7,007,800
Financed by:					
Partners' capital	*12*	9,179,600	8,308,000	8,647,700	7,007,800

III. Cash Flow Statements

The following is a summary of the cash flow statements of the Partnership for the Relevant Periods prepared on the basis set out in Section VI(1) below:

	Section VI *Note*	Six months ended December 31, 2001 *US$*	Year ended June 30, 2001 *US$*	2000 *US$*	1999 *US$*
Net cash inflow from operating activities	*15*	13,529,200	25,216,100	22,436,900	20,208,300
Taxation					
Withholding tax paid		(319,600)	(646,400)	(559,800)	(535,900)
Investing activities					
Trademarks registration and protection costs		(14,000)	(170,000)	(682,000)	(262,600)
Purchase of fixed assets		–	–	(9,200)	(3,000)
Proceeds from sale of fixed assets		–	900	–	18,700
Net cash outflow from investing activities		(14,000)	(169,100)	(691,200)	(246,900)
Net cash inflow before financing		13,195,600	24,400,600	21,185,900	19,425,500
Financing					
Cash distributions to partners		(12,224,500)	(24,749,300)	(20,931,700)	(19,136,100)
Increase / (decrease) in cash and cash equivalents		971,100	(348,700)	254,200	289,400
Cash and cash equivalents at beginning of period / year		1,224,600	1,573,300	1,319,100	1,029,700
Cash and cash equivalents at end of period / year		2,195,700	1,224,600	1,573,300	1,319,100
Analysis of the balances of cash and cash equivalents:					
Bank balances and cash		2,195,700	1,224,600	1,573,300	1,319,100

IV. Statements of Recognized Gains and Losses

The Partnership has no recognized gains and losses other than the operating profits stated in Section I above and therefore no separate statement of recognized gains and losses has been presented.

V. Statements of Changes in Partners' Capital

The following is a summary of the statements of changes in partners' capital for the Relevant Periods prepared on the basis set out in Section VI(1) below:

	Esprit de Corp.	**Esprit Holdings GmbH**	**Esprit (Holdings II) B.V.**	**Total**
	US$	*US$*	*US$*	*US$*
Balance, July 1, 1998	3,037,500	2,463,300	2,710,300	8,211,100
Net profit	6,635,100	5,379,900	5,917,800	17,932,800
Distributions	(7,080,400)	(5,740,800)	(6,314,900)	(19,136,100)
Balance, June 30, 1999	2,592,200	2,102,400	2,313,200	7,007,800
Net profit	8,351,700	6,771,400	7,448,500	22,571,600
Distributions	(7,744,800)	(6,279,500)	(6,907,400)	(20,931,700)
Balance, June 30, 2000	3,199,100	2,594,300	2,854,300	8,647,700
Net profit	9,031,500	7,322,900	8,055,200	24,409,600
Distributions	(9,157,200)	(7,424,800)	(8,167,300)	(24,749,300)
Balance, June 30, 2001	3,073,400	2,492,400	2,742,200	8,308,000
Net profit	4,845,600	3,928,800	4,321,700	13,096,100
Distributions	(4,523,000)	(3,667,400)	(4,034,100)	(12,224,500)
Balance, December 31, 2001	3,396,000	2,753,800	3,029,800	9,179,600

VI. Notes to the Financial Information

1. Basis of preparation

The Financial Information has been prepared under the historical cost convention in accordance with HKGAAP and complies with accounting standards issued by the HKSA.

The Partnership adopted the following new Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after January 1, 2001:

SSAP 26: Segment reporting
SSAP 28: Provisions, contingent liabilities and contingent assets
SSAP 29: Intangible assets
SSAP 31: Impairment of assets

The comparatives have been adjusted or extended to take into account the requirements of the new accounting standards. The effect of adopting SSAP 29 is set out in note 2(e) below. Except for the above, there is no impact on the operating profits resulting from the adoption of the above standards in these financial statements as the Partnership was already following the recognition and measurement principles in those standards.

For the purposes of this report, the summary of the results and cash flows of the Partnership for each of the three years ended June 30, 1999, 2000, 2001 and the balance sheets as at June 30, 1999, 2000, 2001, which were based on the audited financial statements of the Partnership prepared in accordance with USGAAP, have been prepared in accordance with HKGAAP. Appropriate adjustments have been made to the audited financial statements to conform with HKGAAP.

The amounts shown in the Financial Information are presented in United States Dollars ("US$").

2. Principal accounting policies

(a) Revenue recognition

Revenue from licensing and sublicensing is recognized by the Partnership based on sales of ESPRIT products reported by licensees under the terms of licensing agreements.

Interest income includes interest earned on cash balances and interest charged to licensees for late payment of licensing fees. Interest from holding cash is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable. Interest on late payment of licensing fees is recognized when the right to receive payment is established.

(b) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Leasehold improvements are depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis after taking into account their estimated residual values. The principal annual rate is as follows:

Office equipment	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives to the Partnership.

(c) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in the profit and loss account.

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognized as income or expense in the profit and loss account.

(d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Trademarks

Trademarks represent trademarks registration costs and protection costs.

Prior to July 1, 2001, trademarks registration costs were stated at their historical cost and amortized using the straight-line method over the estimated useful lives of 30 years.

On adoption of SSAP 29 "Intangible assets" which became effective for accounting periods commencing on or after January 1, 2001, the trademarks registration costs are amortized using the straight-line method over twenty years. This is in accordance with the rebuttable assumption within SSAP 29 that the useful life of an intangible asset will not exceed twenty years from the date when the asset is available for use. This constitutes a change in accounting estimate which does not require adjustment to prior years' amortization charges and carrying amounts of the trademarks. Consequently, the Partnership's amortization charge for the six months ended December 31, 2001 has been increased by US$43,700.

Trademarks protection costs are amortized using the straight-line method over their estimated useful lives of 5 years.

Where an indication of impairment exists, the carrying amount of the trademarks is assessed and written down immediately to its recoverable amount.

(f) Cash and cash equivalents

Cash represents cash in hand and deposits repayable on demand with any bank or other financial institution. Cash includes cash in hand and deposits denominated in foreign currencies.

(g) Foreign withholding taxes

Certain foreign countries require the Partnership to pay a withholding tax on the licensing fees that the Partnership receives from its licensees. The Partnership reports the licensing revenue at the gross amount and reflects the foreign withholding tax as an expense.

(h) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates ruling at the balance sheet date. Profits or losses arising on exchange are dealt with in the profit and loss account.

(i) Related company

A related company is an individual and a company, where the individual or company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

(j) Contingent liabilities

A contingent liability is a potential obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Partnership. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs such that an outflow is probable, it will then be recognized as a provision.

(k) Segment reporting

In accordance with the Partnership's internal financial reporting, the Partnership has determined that geographical segments by location of customers be presented as the primary reporting format and business segment as the secondary reporting format.

3. Turnover and other revenues

The Partnership is engaged in licensing the ESPRIT trademarks and tradenames worldwide to related companies and third parties. Revenues recognized during the Relevant Periods are as follows:

	Six months ended December 31, 2001	**Year ended June 30, 2001**	**2000**	**1999**
	US$	*US$*	*US$*	*US$*
Turnover				
Licensing fees	15,981,100	29,871,200	27,258,100	23,748,800
Other revenues				
Interest and other income	40,600	149,500	115,500	115,900
	16,021,700	30,020,700	27,373,600	23,864,700

4. Taxation

Business Tax

New York City unincorporated business tax is borne by the Partnership at the rate of 4% on the assessable income of the Partnership throughout the Relevant Periods.

Withholding Tax

The taxation charges for the Relevant Periods represent withholding taxes paid on royalties received from certain licensees.

	Six months ended December 31,	**Year ended June 30,**		
	2001	**2001**	**2000**	**1999**
	US$	*US$*	*US$*	*US$*
Withholding tax	319,600	646,400	559,800	535,900

As a partnership, tax liabilities or federal or state income taxes accrue to the individual partners. Accordingly, no provisions for federal or state income taxes have been made in the Financial Information.

5. Segment information

An analysis of the Partnership's turnover, results and assets and liabilities for the Relevant Periods by geographical segments is as follows:

	Hong Kong	Benelux	Austria	Japan	Australia	Switzerland	Other countries	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
Six months ended December 31, 2001								
Turnover	5,284,100	4,072,900	1,038,100	950,000	942,800	794,500	2,898,700	15,981,100
Segment results	4,528,800	3,491,800	890,400	813,700	808,200	680,800	2,484,900	13,698,600
Other revenues								40,600
Unallocated expenses								(323,500)
Operating profit								13,415,700
Taxation								(319,600)
Net profit								13,096,100
As at December 31, 2001								
Assets								
Segment assets	1,688,500	1,420,800	343,200	3,200	527,400	309,800	1,524,600	5,817,500
Unallocated assets *(note a)*								4,588,100
Total assets								10,405,600
Liabilities								
Segment liabilities	187,600	144,600	36,900	33,700	33,500	28,200	102,900	567,400
Unallocated liabilities								658,600
Total liabilities								1,226,000
Six months ended December 31, 2001								
Other information								
Capital expenditure	–	–	–	–	–	–	–	14,000
Depreciation	–	–	–	–	–	–	–	23,200
Amortization of trademarks	–	–	–	–	–	–	–	300,300

	Hong Kong	Benelux	Austria	Japan	Australia	Switzerland	Other countries	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
Year ended June 30, 2001								
Turnover	10,397,400	6,377,800	1,785,400	1,763,600	1,748,000	1,251,500	6,547,500	29,871,200
Segment results	8,909,000	5,464,100	1,530,500	1,510,000	1,497,200	1,072,400	5,610,300	25,593,500
Other revenues								149,500
Unallocated expenses								(687,000)
Operating profit								25,056,000
Taxation								(646,400)
Net profit								24,409,600
As at June 30, 2001								
Assets								
Segment assets	1,351,900	1,145,500	297,400	19,200	434,700	252,900	2,349,000	5,850,600
Unallocated assets *(note a)*								3,804,000
Total assets								9,654,600
Liabilities								
Segment liabilities	125,400	76,900	21,500	21,200	21,100	15,100	78,900	360,100
Unallocated liabilities								986,500
Total liabilities								1,346,600
Year ended June 30, 2001								
Other information								
Capital expenditure	–	–	–	–	–	–	–	170,000
Depreciation	–	–	–	–	–	–	–	49,000
Amortization of trademarks	–	–	–	–	–	–	–	638,000

	Hong Kong	Benelux	Austria	Japan	Australia	Switzerland	Other countries	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
Year ended June 30, 2000								
Turnover	10,211,500	5,188,400	1,388,000	1,879,200	2,184,900	1,098,400	5,307,700	27,258,100
Segment results	8,918,200	4,530,500	1,211,800	1,640,300	1,909,300	959,400	4,637,800	23,807,300
Other revenues								115,500
Unallocated expenses								(791,400)
Operating profit								23,131,400
Taxation								(559,800)
Net profit								22,571,600
As at June 30, 2000								
Assets								
Segment assets	2,663,400	892,300	180,500	80,100	497,100	206,200	1,132,000	5,651,600
Unallocated assets *(note a)*								4,525,200
Total assets								10,176,800
Liabilities								
Segment liabilities	–	–	–	312,100	–	–	–	312,100
Unallocated liabilities								1,217,000
Total liabilities								1,529,100
Year ended June 30, 2000								
Other information								
Capital expenditure	–	–	–	–	–	–	–	691,200
Depreciation	–	–	–	–	–	–	–	52,700
Amortization of trademarks	–	–	–	–	–	–	–	738,700

	Hong Kong	Benelux	Austria	Japan	Australia	Switzerland	Other countries	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
Year ended June 30, 1999								
Turnover	8,479,900	4,271,600	951,200	2,385,900	2,093,400	1,043,600	4,523,200	23,748,800
Segment results	6,911,700	3,482,000	776,100	1,945,200	1,705,200	849,700	3,685,300	19,355,200
Other revenues								115,900
Unallocated expenses								(1,002,400)
Operating profit								18,468,700
Taxation								(535,900)
Net profit								17,932,800
As at June 30, 1999								
Assets								
Segment assets	1,516,100	698,800	149,500	430,700	356,200	226,900	942,600	4,320,800
Unallocated assets *(note a)*								4,660,500
Total assets								8,981,300
Liabilities								
Segment liabilities	109,600	55,200	12,300	30,900	27,000	13,500	58,500	307,000
Unallocated liabilities								1,666,500
Total liabilites								1,973,500
Year ended June 30, 1999								
Other information								
Capital expenditure	–	–	–	–	–	–	–	265,600
Depreciation	–	–	–	–	–	–	–	82,200
Amortization of trademarks	–	–	–	–	–	–	–	824,800

Note:

(a) Unallocated assets comprise the corporate fixed assets, trademarks and other corporate assets.

(b) No additional disclosure is made as the carrying amount of segment assets and capital expenditure by location of customers are the same as those by location of assets.

(c) No business segment analysis is provided as the Partnership solely operates a licensing business.

6. Operating profits

Operating profits are arrived at after crediting and charging the following:

	Six months ended December 31,	**Year ended June 30,**		
	2001	**2001**	**2000**	**1999**
	US$	*US$*	*US$*	*US$*
Crediting:				
Profit on disposal of fixed assets	–	300	–	–
Charging:				
Auditors' remuneration	17,000	32,000	28,000	23,900
Provision for doubtful debts	30,100	44,800	11,800	28,200
Depreciation	23,200	49,000	52,700	82,200
Amortization of trademarks	300,300	638,000	738,700	824,800
Operating lease rental expenses				
– Land and building	40,200	75,900	74,700	6,700
– Others	31,900	70,100	69,100	–
Loss on disposal of fixed assets	–	–	–	95,400

7. **Fixed assets**

	Leasehold improvements	Office equipment	Total
	US$	*US$*	*US$*
Cost			
At July 1, 1998	172,700	565,400	738,100
Additions	–	3,000	3,000
Disposals	–	(468,400)	(468,400)
At June 30, 1999	172,700	100,000	272,700
Additions	–	9,200	9,200
Disposals	–	–	–
At June 30, 2000	172,700	109,200	281,900
Additions	–	–	–
Disposals	–	(1,600)	(1,600)
At June 30, 2001	172,700	107,600	280,300
Additions	–	–	–
Disposals	–	–	–
At December 31, 2001	172,700	107,600	280,300
Accumulated depreciation			
At July 1, 1998	34,800	366,200	401,000
Charge for the year	34,500	47,700	82,200
Disposals	–	(354,300)	(354,300)
At June 30, 1999	69,300	59,600	128,900
Charge for the year	34,500	18,200	52,700
Disposals	–	–	–
At June 30, 2000	103,800	77,800	181,600
Charge for the year	34,600	14,400	49,000
Disposals	–	(1,000)	(1,000)
At June 30, 2001	138,400	91,200	229,600
Charge for the period	17,100	6,100	23,200
Disposals	–	–	–
At December 31, 2001	155,500	97,300	252,800
Net book values			
At June 30, 1999	103,400	40,400	143,800
At June 30, 2000	68,900	31,400	100,300
At June 30, 2001	34,300	16,400	50,700
At December 31, 2001	17,200	10,300	27,500

8. Trademarks

	US$
Cost	
At July 1, 1998	4,814,100
Additions	262,600
At June 30, 1999	5,076,700
Additions	682,000
Written off	(844,600)
At June 30, 2000	4,914,100
Additions	170,000
At June 30, 2001	5,084,100
Additions	14,000
At December 31, 2001	5,098,100
Accumulated amortization	
At July 1, 1998	1,730,700
Charge for the year	824,800
At June 30, 1999	2,555,500
Charge for the year	738,700
Written off	(844,600)
At June 30, 2000	2,449,600
Charge for the year	638,000
At June 30, 2001	3,087,600
Charge for the period	300,300
At December 31, 2001	3,387,900
Net book values	
At June 30, 1999	2,521,200
At June 30, 2000	2,464,500
At June 30, 2001	1,996,500
At December 31, 2001	1,710,200

9. Trade receivables

The credit terms of the Partnership range from 30 to 45 days. The ageing analysis is as follows:

	As at December 31, 2001	As at June 30, 2001	2000	1999
	US$	*US$*	*US$*	*US$*
0 – 30 days	809,000	1,108,900	1,593,000	1,245,500
31 – 60 days	–	30,700	21,200	9,900
61 – 90 days	19,500	–	–	–
Over 90 days	91,300	97,400	238,300	155,500
	919,800	1,237,000	1,852,500	1,410,900

10. Amounts due from/to related companies

The amounts due are unsecured, interest free and have no fixed terms of repayment. The amounts are trading in nature.

11. Amounts due from partners

The amounts due are interest free, unsecured and have no fixed terms of repayment.

12. Partners' capital

	As at December 31, 2001	As at June 30, 2001	2000	1999
	US$	*US$*	*US$*	*US$*
Esprit de Corp.	3,396,000	3,073,400	3,199,100	2,592,200
Esprit Holdings GmbH	2,753,800	2,492,400	2,594,300	2,102,400
Esprit (Holdings II) B.V.	3,029,800	2,742,200	2,854,300	2,313,200
	9,179,600	8,308,000	8,647,700	7,007,800

13. Contingent liabilities

The Partnership is involved in certain trademarks protection and other litigation arising in the normal course of business. In the opinion of management, there is no pending or threatened litigation that would have a material adverse effect on the Partnership's financial position or results of operations.

14. Commitments under operating leases

The Partnership had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at December 31, 2001	As at June 30, 2001	2000	1999
	US$	*US$*	*US$*	*US$*
Not later than one year	44,100	114,800	138,700	136,200
Later than one year and not later than five years	–	–	114,800	253,500
	44,100	114,800	253,500	389,700

15. Reconciliation of operating profits to net cash inflow from operating activities

	Six months ended December 31, 2001	Year ended June 30, 2001	2000	1999
	US$	*US$*	*US$*	*US$*
Operating profits	13,415,700	25,056,000	23,131,400	18,468,700
Depreciation	23,200	49,000	52,700	82,200
Amortization of trademarks	300,300	638,000	738,700	824,800
(Profit) / loss on disposal of fixed assets	–	(300)	–	95,400
Decrease / (increase) in trade and other receivables and amounts due from related companies	32,800	(184,000)	(1,375,100)	(342,700)
(Increase) / decrease in amounts due from partners	(122,200)	(160,100)	333,600	59,200
(Decrease) / increase in accruals and receipts in advance, business tax payable and amounts due to related companies	(120,600)	(182,500)	(444,400)	1,020,700
	13,529,200	25,216,100	22,436,900	20,208,300

16. Related party transactions

During the Relevant Periods, the Partnership had the following significant transactions, all of which were with subsidiaries or associated companies of EHL, with related parties in the normal course of business:

	Note	Six months ended December 31, 2001	Year ended June 30, 2001	2000	1999
		US$	*US$*	*US$*	*US$*
Licensing fees	*(a)*	11,952,704	20,678,297	18,293,200	15,045,600
Management/ service fees paid	*(b)*	509,300	1,205,430	1,576,000	2,781,400

Note:

(a) Licensing with related companies was conducted in the normal course of business according to the licensing agreements and at the rates and terms comparable to those charged to and contracted with third parties.

(b) The Partnership received management, photographic and administrative support services from related companies and a partner. The fees paid are based on the actual cost incurred by the related companies and a partner or actual cost plus certain percentage markups.

VII. Subsequent Financial Statements

No audited financial statements of the Partnership have been prepared in respect of any period subsequent to June 30, 2001.

VIII. Significant Subsequent Events

On February 15, 2002, the Partnership distributed US$7,109,732 to its partners.

Yours faithfully

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

1. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were as follows:

	HK$'000
Authorized	
2,000,000,000 shares of HK$0.10 each	200,000
Issued and fully paid	
1,146,358,831 shares of HK$0.10 each	114,636

Details of outstanding share options as at the Latest Practicable Date granted to and accepted by the Directors under the share option scheme adopted by the Company on November 17, 1993 ("1993 Scheme"), in which the executive Directors can subscribe for Shares in the Company at HK$2.64 to HK$6.36 per Share, are as follows:

Name of Director	**No. of outstanding share options**
Michael YING Lee Yuen	15,000,000
CHHIBBER Surinder	8,000,000
Heinz Jürgen KROGNER-KORNALIK	4,000,000
John POON Cho Ming	8,000,000

These options were divided into two to eight equal fractional instalments. The first exercisable date between each instalment shall occur at intervals of six calendar months. Each such options shall expire on, (i) the fifth anniversary of the first exercisable date of each instalment; or (ii) ten years from the date of adoption of the 1993 Scheme, whichever is the earlier. The earliest exercisable date for the first instalment shall occur six months after the date of grant.

2. FINANCIAL INFORMATION OF THE GROUP

Set out below is an extract from the published interim/annual reports of (i) the audited consolidated profit and loss account of the Group for the three years ended June 30, 1999, 2000 and 2001, and also the unaudited consolidated profit and loss account for the six months ended December 31, 2001; (ii) the unaudited financial statements for the six months ended December 31, 2001; and (iii) the audited financial statements for the year ended June 30, 2001.

(i) Consolidated Profit and Loss Accounts

	Six months ended December 31, 2001 Unaudited HK$'000	Year ended June 30, 2001 Audited HK$'000	2000 Audited HK$'000	1999 Audited HK$'000
Turnover	4,647,845	8,109,062	7,277,306	5,993,820
Cost of goods sold	(2,419,795)	(4,110,019)	(3,654,119)	(2,911,681)
Gross profit	2,228,050	3,999,043	3,623,187	3,082,139
Other revenues	21,812	67,824	64,422	37,457
Staff costs	(610,149)	(1,149,618)	(1,099,549)	(1,008,897)
Depreciation and amortization	(130,120)	(208,825)	(186,939)	(166,454)
Other operating costs	(825,072)	(1,530,884)	(1,491,842)	(1,271,514)
Operating profit	684,521	1,177,540	909,279	672,731
Finance costs	(1,935)	(38,290)	(37,912)	(48,132)
Share of profits of associated companies	13,773	20,478	12,730	1,146
Profit on disposal of listed investment held for long term	–	–	–	77,662
Profit before taxation	696,359	1,159,728	884,097	703,407
Taxation	(272,544)	(512,459)	(349,225)	(228,381)
Profit after taxation	423,815	647,269	534,872	475,026
Minority interests	(38,619)	(71,940)	(74,811)	(44,999)
Profit attributable to shareholders	385,196	575,329	460,061	430,027
Dividends	68,906	191,094	167,877	160,845
Earnings Per Share				
– Basic	33.7 cents	51.2 cents	41.3 cents	39.2 cents
– Fully diluted	33.0 cents	50.1 cents	40.0 cents	38.9 cents

(ii) The Unaudited Financial Statements for the Six Months Ended December 31, 2001

Condensed Consolidated Profit and Loss Account (Unaudited)

	Note	For the 6 months ended December 31, 2001 HK$'000	2000 HK$'000
Turnover	2	4,647,845	3,994,242
Cost of Goods Sold		(2,419,795)	(2,035,993)
Gross Profit		2,228,050	1,958,249
Other Revenues		21,812	30,932
Staff Costs		(610,149)	(557,495)
Depreciation and Amortization		(130,120)	(97,365)
Other Operating Costs		(825,072)	(757,464)
Operating Profit		684,521	576,857
Finance Costs		(1,935)	(17,944)
Share of Profits of Associated Companies		13,773	10,360
Profit before Taxation	3	696,359	569,273
Taxation	4	(272,544)	(258,735)
Profit after Taxation		423,815	310,538
Minority Interests		(38,619)	(37,334)
Profit Attributable to Shareholders		385,196	273,204
Interim Dividend	5	68,906	53,902
Earnings Per Share			
– basic	6	33.7 cents	24.4 cents
– fully diluted	6	33.0 cents	23.7 cents
Dividend Per Share		6.0 cents	4.8 cents

Condensed Consolidated Balance Sheet

	Note	Unaudited As at December 31, 2001 HK$'000	Audited As at June 30, 2000 HK$'000
Intangible Assets		713,816	722,110
Fixed Assets		875,507	779,120
Other Investments		7,366	7,366
Associated Companies		92,021	78,980
Current Assets			
Stocks and work in progress		925,503	791,264
Debtors, deposits and prepayments	*7*	758,692	716,234
Amounts due from associated companies		28,954	10,349
Short-term bank deposits		102,507	7,855
Bank balances and cash		738,701	435,697
		2,554,357	1,961,399
Current Liabilities			
Creditors and accrued charges	*8*	965,382	746,923
Taxation		714,795	542,148
Obligations under finance leases – due within one year	*9*	882	1,303
Bank overdrafts		47,202	55,604
		1,728,261	1,345,978
Net Current Assets		826,096	615,421
Total Assets Less Current Liabilities		2,514,806	2,202,997
Financed by:			
Share Capital	*10*	114,577	114,251
Reserves		872,733	815,082
Retained Profit	*11*	1,431,321	1,115,031
Interim Dividend		68,746	–
Final Dividend		–	137,101
Shareholders' Funds		2,487,377	2,181,465
Minority Interests		21,546	18,204
Obligations under Finance Leases	*9*	508	941
Deferred Taxation		5,375	2,387
		2,514,806	2,202,997

Condensed Consolidated Cash Flow Statement (Unaudited)

	For the 6 months ended December 31, 2001 HK$'000	2000 HK$'000
Net Cash Inflow from Operating Activities	871,664	614,794
Returns on Investments and Servicing of Finance:		
Interest received	9,015	18,915
Interest paid	(1,855)	(17,811)
Interest element of finance leases	(80)	(133)
Dividends paid	(120,227)	(123,166)
Distribution to a non-affiliated partner of a limited partnership	(35,278)	(32,555)
Net Cash Outflow from Returns on Investments and Servicing of Finance	(148,425)	(154,750)
Taxation:		
Hong Kong profits tax paid	(49,316)	(45,324)
Overseas tax paid	(77,001)	(51,600)
Tax Paid	(126,317)	(96,924)
Investing Activities:		
Purchase of additional interest in a subsidiary	(15,000)	–
Purchase of fixed assets	(196,101)	(196,430)
Proceeds from disposal of fixed assets	2,408	2,396
Net Cash Outflow from Investing Activities	(208,693)	(194,034)
Net Cash Inflow before Financing	388,229	169,086
Financing:		
Net proceeds on issue of shares for cash	3,571	10,673
Repayment of obligations under finance leases	(873)	(754)
Repayment of bank loans	–	(77,966)
Net Cash Inflow/(Outflow) from Financing	2,698	(68,047)
Increase in Cash and Cash Equivalents	390,927	101,039
Cash and Cash Equivalents at July 1	387,948	707,126
Effect of Change in Exchange Rates	15,131	(15,719)
Cash and Cash Equivalents at December 31	794,006	792,446
Analysis of the Balances of Cash and Cash Equivalents:		
Short-term Bank Deposits	102,507	91,093
Bank Balances and Cash	738,701	720,796
Bank Overdrafts	(47,202)	(10,713)
Short-term Bank Loans	–	(8,730)
	794,006	792,446

Condensed Consolidated Statement of Recognized Gains and Losses

	For the 6 months ended December 31,	
	Unaudited	**Unaudited**
	2001	**2000**
	HK$'000	*HK$'000*
Exchange differences arising on translation of subsidiaries and associated companies not recognized in the profit and loss account	37,372	(30,972)
Profit for the period	385,196	273,204
Total recognized gains	422,568	242,232

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

These unaudited condensed consolidated interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended June 30, 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after January 1, 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below:

(a) *SSAP 9 (revised): Events after the balance sheet date*

In accordance with the revised SSAP 9, the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 11, opening retained profit at July 1, 2000 have increased by HK$125,474,000 which is the reversal of the provision for the 1999/2000 proposed final dividend previously recorded as a liability as at June 30, 2000 although not declared until after the balance sheet date. Opening retained profit at July 1, 2001 have increased by HK$137,101,000 which is the reversal of the provision for the 2000/2001 proposed final dividend previously recorded as a liability as at June 30, 2001 although not declared until after the balance sheet date.

(b) *SSAP 29: Intangible Assets*

Trademarks

In prior years, trademarks were amortized by equal annual installments over their estimated economic life of 40 years. In accordance with SSAP 29 expenditure on acquired trademarks are amortized using the straight-line method over their useful lives with a rebuttable presumption that the useful life of an intangible asset will not exceed twenty years from the date when the asset is available for use. Consequently, the Group’s amortization charge for the current period has been increased by HK$13,124,000. However, the Company is still reviewing such rebuttable presumption and may make appropriate adjustments in the future.

(c) *SSAP 30: Business Combinations*

Goodwill and reserves arising on acquisition

Goodwill/reserves arising on acquisition represents the excess/shortfall of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired. Goodwill/reserves arising on acquisitions occurring on or after July 1, 2001 are included in intangible assets/reserves and are amortized using the straight-line method over their estimated useful lives. Goodwill/reserves arising on acquisitions that occurred prior to July 1, 2001 were taken directly to reserves in the year of acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill/reserves on acquisition have not been retroactively capitalized and amortized. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 “Impairment of Assets”.

2. Turnover

The Group is principally engaged in the design, licensing, sourcing, wholesale and retail distribution of high quality fashion products under the internationally known ESPRIT brand name in Europe, Asia Pacific and Canada, together with Red Earth cosmetics, skin and general body care products.

The turnover and contribution to operating profit after finance costs by principal activities and geographical markets are as follows:

	Turnover For the 6 months ended December 31,		**Contribution to operating profit after finance costs For the 6 months ended December 31,**	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysis by principal activities:				
Wholesale	2,575,718	2,151,793	552,309	387,338
Retail	2,035,636	1,800,332	119,020	147,388
Others	36,491	42,117	11,257	24,187
	4,647,845	3,994,242	682,586	558,913
Analysis by principal geographical markets:				
Germany	2,241,099	1,916,713	468,323	325,459
Belgium and the Netherlands	649,507	458,866	130,958	66,399
Hong Kong	578,876	560,054	6,088	49,074
Other Asia Pacific countries	666,325	676,092	38,498	67,818
Other European countries	480,622	343,134	27,462	25,976
Others	31,416	39,383	11,257	24,187
	4,647,845	3,994,242	682,586	558,913

3. Profit before taxation

	For the 6 months ended December 31,	
	2001	**2000**
	HK$'000	*HK$'000*
Profit before taxation is arrived at after crediting and charging the following:		
Crediting		
Provision for doubtful debts written back	6,213	–
Provision for obsolete stock written back	15,138	–
Exchange gain	3,830	–
Charging		
Depreciation and amortization		
– Owned assets	106,293	86,329
– Assets held under finance leases	533	866
– Trademarks	23,294	10,170
Exchange loss	–	6,379
Interest on short-term bank loans, overdrafts, and other loans wholly repayable within five years	1,855	17,811
Interest element of finance leases	80	133
Loss on disposal of fixed assets	5,690	2,822
Provision for doubtful debts	–	9,932
Provision for obsolete stocks	–	12,139

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000/01: 16%) on the estimated assessable profit for the period. Overseas taxation has been calculated at the rates of taxation prevailing in the countries in which the Group operates.

	For the 6 months ended December 31,	
	2001	**2000**
	HK$'000	*HK$'000*
Company and its subsidiaries:		
Hong Kong profits tax	31,942	27,040
Overseas taxation	239,870	230,285
	271,812	257,325
Associated companies – overseas taxation	732	1,410
	272,544	258,735

5. Interim dividend

	For the 6 months ended December 31,	
	2001	**2000**
	HK$'000	*HK$'000*
Alignment of 2000/01 final dividend on 1,332,000 (1999/2000: 248,000) new shares issued	160	28
Interim dividend declared of 6.0 Hong Kong cents (2000/01: 4.8 Hong Kong cents) per share	68,746	53,874
	68,906	53,902

The amount for the 2001/2002 interim dividend is based on 1,145,772,831 shares (2000/2001: 1,122,368,345 shares) in issue as at January 31,2002.

6. Earnings per share

The calculation of basic earnings per share is based on the unaudited profit attributable to shareholders of HK$385,196,000 (2000/2001: HK$273,204,000) and the weighted average number of shares in issue during the period of 1,143,169,751 (2000/2001: 1,120,443,088).

The calculation of fully diluted earnings per share is based on the unaudited profit attributable to shareholders of HK$385,196,000 (2000/2001: HK$273,204,000), and the weighted average number of shares in issue during the period of 1,167,511,920 (2000/2001: 1,153,341,315) after adjusting for the number of dilutive ordinary shares deemed to be issued at no consideration based on the assumption that all outstanding share options granted under the Company's Employee Share Option Scheme had been exercised at July 1, 2001.

7. Debtors, deposits and prepayments

Debtors, deposits and prepayments included trade debtors and their ageing analysis is as follows:

	As at December 31, 2001	As at June 30, 2001
	HK$'000	*HK$'000*
0-30 days	318,480	359,565
31-60 days	42,035	40,977
61-90 days	21,868	17,777
Over 90 days	27,591	20,808
	409,974	439,127

The Group's retail sales to customers are mainly on a cash basis. The Group also grants credit to certain wholesale and franchise customers which is usually 30 days.

8. Creditors and accrued charges

Creditors and accrued charges included trade creditors and their ageing analysis is as follows:

	As at December 31, 2001 *HK$'000*	As at June 30, 2001 *HK$'000*
0-30 days	369,344	316,147
31-60 days	58,927	23,838
61-90 days	18,316	4,173
Over 90 days	17,234	5,907
	463,821	350,065

9. Obligations under finance leases

	As at December 31, 2001 *HK$'000*	As at June 30, 2001 *HK$'000*
Total minimum lease payments		
– within one year	952	1,381
– in the second year	254	565
– in the third to fifth year inclusive	319	452
	1,525	2,398
Future finance charges on finance leases	(135)	(154)
Present value of finance lease liabilities	1,390	2,244
The present value of finance lease liabilities		
– within one year	882	1,303
– in the second year	235	519
– in the third to fifth year inclusive	273	422
	1,390	2,244
Amount due within one year included under current liabilities	(882)	(1,303)
	508	941

10. Share capital

	As at December 31, 2001	As at June 30, 2001
	HK$'000	*HK$'000*
Authorized:		
2,000,000,000 shares of HK$0.10 each	200,000	200,000

	Number of Shares of HK$0.10 each	Nominal value
	'000	*HK$'000*
Issued and fully paid:		
At July 1, 2000	1,116,559	111,656
Issues of scrip dividend shares	780	78
Exercise of share options	25,166	2,517
At June 30, 2001	1,142,505	114,251
At July 1, 2001	1,142,505	114,251
Issues of scrip dividend shares *(Note (a))*	1,936	193
Exercise of share options *(Note (b))*	1,332	133
At December 31, 2001	1,145,773	114,577

Note (a)
At the annual general meeting of the Company held on November 26, 2001, shareholders of the Company approved a final dividend for the year ended June 30, 2001 of 12 Hong Kong cents per share of HK$0.10 each. Shareholders may elect to receive fully paid new shares in lieu of cash ("Scrip Dividend Scheme"). Under this Scrip Dividend Scheme, 2000/2001 final dividend of HK$17,033,782 was settled by the issue of 1,935,657 Scrip Dividend Shares at a premium of HK$8.7 each.

Note (b)
During the period, 1,332,000 shares of HK$0.10 were issued at a premium of the range from HK$2.54 to HK$2.62 each in relation to share options exercised by employees and Directors under the Share Option Scheme.

11. Retained profit

	HK$'000
At July 1, 2000 as previously reported	730,796
Effect of proposed 1999/2000 final dividends as a result of adoption of SSAP 9 (revised)	125,474
At July 1, 2000 as restated	856,270
1999/2000 Final dividend paid	(125,502)
Profit for the year	575,329
2000/2001 Interim dividend paid	(53,965)
At June 30, 2001 as restated	1,252,132
Retained profit, after proposed dividends	1,115,031
2000/2001 Final dividend proposed	137,101
	1,252,132
Attributable to:	
Company and subsidiaries	1,222,173
Associated companies	29,959
At June 30, 2001	1,252,132
At July 1, 2001 as previously reported	1,115,031
Effect of proposed 2000/2001 final dividends as a result of adoption of SSAP 9 (revised)	137,101
At July 1, 2001 as restated	1,252,132
2000/2001 Final dividend paid	(137,261)
Profit for the period	385,196
	1,500,067
Retained profit, after interim dividend	1,431,321
2001/2002 Interim dividend	68,746
	1,500,067
Attributable to:	
Company and subsidiaries	1,457,067
Associated companies	43,000
At December 31, 2001	1,500,067

12. Operating lease commitments

	As at December 31, 2001 HK$'000	As at June 30, 2001 HK$'000
The total future minimum lease payments under non-cancellable operating leases are as follows:		
Land and buildings		
– within one year	676,996	605,132
– in the second to fifth year inclusive	1,898,978	1,598,340
– after the fifth year	1,784,177	1,364,879
	4,360,151	3,568,351
Other equipment		
– within one year	11,879	14,259
– in the second to fifth year inclusive	5,753	9,047
– after the fifth year	–	–
	4,377,783	3,591,657

13. Commitments

(a) Capital commitments

	As at December 31, 2001 HK$'000	As at June 30, 2001 HK$'000
Contracted but not provided for	109,562	175,628
Authorized but not contracted for	147,108	87,814
	256,670	263,442

(b) Foreign exchange contracts

The notional amounts of the Group's foreign exchange contracts are as follows:

	As at December 31, 2001 HK$'000	As at June 30, 2001 HK$'000
Forward contracts	224,734	170,371

Foreign exchange contracts are entered into primarily to protect the Group from the impact of currency fluctuation during the normal course of business.

14. Related party transactions

In the ordinary course of business and on normal commercial terms, the Group entered into transactions with the related companies during the six months ended December 31, 2001. Details relating to these related party transactions are as follows:

	For the 6 months ended December 31,	
	2001	**2000**
	HK$'000	*HK$'000*
Transactions with Associated Companies:		
Sales of finished goods	143,279	70,409
Other income	54	52

(iii) The Audited Financial Statement for the Year Ended June 30, 2001

Consolidated Profit and Loss Account

		For the year ended June 30,	
		2001	**2000**
	Note	*HK$'000*	*HK$'000*
Turnover	*2*	8,109,062	7,277,306
Cost of goods sold		(4,110,019)	(3,654,119)
Gross profit		3,999,043	3,623,187
Other revenues	*2*	67,824	64,422
Staff costs		(1,149,618)	(1,099,549)
Depreciation and amortization		(208,825)	(186,939)
Other operating costs		(1,530,884)	(1,491,842)
Operating profit	*3*	1,177,540	909,279
Finance costs	*4*	(38,290)	(37,912)
Share of profits of associated companies		20,478	12,730
Profit before taxation		1,159,728	884,097
Taxation	*5*	(512,459)	(349,225)
Profit after taxation		647,269	534,872
Minority interests		(71,940)	(74,811)
Profit attributable to shareholders		575,329	460,061
Dividends	*6*	(191,094)	(167,877)
Profit for the year retained		384,235	292,184
Earnings per share			
– basic	*7*	51.16 cents	41.32 cents
– fully diluted		50.12 cents	39.96 cents

Consolidated Balance Sheet

		As at June 30,	
		2001	**2000**
	Notes	*HK$'000*	*HK$'000*
Trademarks	*10*	722,110	742,451
Fixed Assets	*11*	779,120	596,953
Other Investments	*12*	7,366	29,327
Associated Companies	*13*	78,980	58,563
Current Assets			
Stocks and work in progress	*14*	791,264	735,767
Debtors, deposits and prepayments	*15*	716,234	656,993
Amounts due from associated companies	*13*	10,349	20,623
Short-term bank deposits		7,855	160,538
Bank balances and cash		435,697	574,334
		1,961,399	2,148,255
Current Liabilities			
Creditors and accrued charges	*16*	746,923	829,537
Proposed dividend		137,101	125,474
Taxation		542,148	464,937
Obligations under finance leases			
– due within one year	*19*	1,303	1,835
Long-term bank loan			
– due within one year	*20*	–	155,906
Unsecured short-term bank loan		–	13,223
Bank overdrafts	*21*	55,604	14,523
		1,483,079	1,605,435
Net Current Assets		478,320	542,820
Total Assets Less Current Liabilities		2,065,896	1,970,114
Financed by:			
Share Capital	*17*	114,251	111,656
Reserves	*18*	1,930,113	1,612,722
Shareholders' Funds		2,044,364	1,724,378
Minority Interests		18,204	17,659
Obligations under Finance Leases	*19*	941	1,931
Long-term Bank Loan	*20*	–	226,064
Deferred Taxation	*22*	2,387	82
		2,065,896	1,970,114

Consolidated Cash Flow Statement

	Notes	Year ended June 30, 2001 HK$'000	2000 HK$'000
Net Cash Inflow from Operating Activities	*23(a)*	1,084,568	1,088,877
Returns on Investments and Servicing of Finance			
Interest received		45,360	27,938
Interest paid		(38,035)	(37,614)
Interest element of finance leases		(255)	(298)
Income from listed investments		3	2
Dividends paid		(173,142)	(147,510)
Distribution to a non-affiliated partner of a limited partnership		(71,399)	(60,212)
Net Cash Outflow from Returns on Investments and Servicing of Finance		(237,468)	(217,694)
Taxation			
Hong Kong profits tax paid		(46,186)	(28,107)
Overseas tax paid		(328,291)	(203,177)
Tax Paid		(374,477)	(231,284)
Investing Activities			
Purchase of additional interest in a subsidiary		–	(5,329)
Purchase of fixed assets		(444,626)	(322,819)
Proceeds from disposal of fixed assets		3,876	7,203
Proceeds from disposal of other investments		20,440	–
Net Cash Outflow from Investing Activities		(420,310)	(320,945)
Net Cash Inflow before Financing		52,313	318,954
Financing			
Net proceeds on issue of shares for cash		68,898	17,018
Repayment of obligations under finance leases		(1,494)	(2,450)
Repayment of bank loans		(382,053)	(153,548)
Net Cash Outflow from Financing	*23(b)*	(314,649)	(138,980)
(Decrease) / increase in Cash and Cash Equivalents		(262,336)	179,974
Cash and Cash Equivalents at beginning of year	*23(c)*	707,126	542,932
Effect of Change in Exchange Rates		(56,842)	(15,780)
Cash and Cash Equivalents at end of year	*23(c)*	387,948	707,126

Consolidated Statement of Recognized Gains and Losses

		Year ended June 30,	
	Notes	**2001**	**2000**
		HK$'000	*HK$'000*
Exchange differences arising on translation of subsidiaries and associated companies not recognized in the profit and loss account	*18*	(139,472)	(22,054)
Profit for the year		575,329	460,061
Total recognized gains		435,857	438,007
Goodwill eliminated directly against reserves	*18*	–	(12,108)
		435,857	425,899

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2001

1. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are as follows:

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to June 30.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The gain and loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or reserves arising on acquisition which was not previously charged or recognized in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders and a non-affiliated partner in the operating results and net assets of subsidiaries and a limited partnership.

The consolidated financial statements also include the Group's share of post acquisition profits less losses, and reserves, of its associated companies.

(c) Turnover

Turnover represents the invoiced sales to, royalties and commission income from third party customers.

(d) Revenue recognition

Revenue from the sales of goods are recognized when the goods and title has been passed to customers.

Royalty income is recognized on an accrual basis in accordance with the substance of the licensing agreement.

Commission income is recognized when the services are rendered.

Interest income is recognized on a time proportion basis on the principal amounts outstanding and the rates applicable.

Income from listed investments is recognized when the right to receive payment is established.

(e) Trademarks

Trademarks are stated at cost and amortized by equal annual installments over their estimated economic life of 40 years. The cost of acquisition is the fair market value at the time of acquisition determined by an independent valuer.

(f) Goodwill and reserves arising on acquisition

Goodwill/reserves arising on acquisition represents the excess/shortfall of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired and is taken directly to reserves in the year of acquisition.

(g) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Investment in subsidiaries are stated at cost less provision for permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(h) Associated companies

An associated company is a company, not being a subsidiary, in which the Group has a long-term equity investment, and over which the Group is in a position to exercise significant influence in management, including participation in commercial and financial policy decisions.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

(i) Fixed asssets

Fixed assets are stated at cost less accumulated depreciation.

Freehold land is not amortized. Leasehold land is amortized over the remaining period of the lease.

Improvements to leasehold properties occupied by the Group under operating leases are amortized over a period of the shorter of five years and their estimated useful life on a straight-line basis.

Other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis after taking into account their estimated residual values. The principal annual rates are as follows:

Buildings	3 1/3 – 5%
Plant and machinery	30%
Furniture and office equipment	10 – 33 1/3%
Motor vehicles and launch	30%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amounts.

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognized as income or expense in the profit and loss account.

(j) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalized at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. The principal portions of the corresponding lease commitments are shown as obligations to the lessor. Finance charges are charged to the profit and loss account in proportion to the capital balances outstanding.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. The annual rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the terms of the respective leases.

(k) Other investments

Investments held for the long-term are stated at cost less provision for permanent diminution in value. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognized in the profit and loss account as they arise.

(l) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost which comprises the direct cost of materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition, is calculated using the weighted average cost method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(m) Deferred taxation

Deferred taxation is provided, using the liability method, on all significant timing differences, other than those which are not expected to crystallize in the foreseeable future. Deferred tax assets are not recognized unless the related benefits are expected to crystallize in the foreseeable future.

(n) Translation of foreign currencies

Each operating entity records its transactions in the currency of the jurisdiction in which it operates, termed its “functional currency”. Transactions in foreign currencies are translated into the respective functional currencies at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currencies at the approximate rates ruling on the balance sheet date. Profits or losses arising on exchange are dealt with in the profit and loss account.

On consolidation, the balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date and the results of subsidiaries and associated companies at the average rates of exchange prevailing during the year. Exchange differences arising are dealt with as movements in reserves.

(o) Foreign exchange contracts

Foreign exchange contracts and options are entered into to protect the Group from the impact of foreign currency fluctuation. According to Group policy, within a predetermined risk limit, the Group may over or under hedge a certain percentage of the anticipated foreign exchange exposure. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any gain or loss is recognized in the profit and loss account on the same basis as that arising from the related assets, liabilities or positions. All over hedge transactions are marked to market and the gains or losses are recognized in the profit and loss account. No gain or loss is recognized in relation to foreign exchange contracts which are entered into to hedge future commitments until the transaction occurs. Premiums on options are amortized over the option period.

(p) *Retirement benefit costs*

The Group's contributions to the Hong Kong mandatory provident fund scheme (the "MPF Scheme") are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(q) *Cash and cash equivalents*

Cash represents cash in hand and deposits repayable on demand with any bank or other financial institution. Cash includes cash in hand and deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(r) *Comparatives*

Where necessary, comparatives figures have been adjusted to conform with changes in presentation in the current year. In particular, comparatives have been adjusted to take into account the requirements of the Statements of Standard Accounting Practice ("SSAP") No.14 (Revised) "Leases" which the Group implemented in 2001.

There are no changes in accounting policy that affect operating profit resulting from the adoption of the above standards in these financial statements, as the Group was already following the recognition and measurement principles in those standards.

2. Turnover, Revenue and Segment Information

The Group is principally engaged in the design, licensing, sourcing, wholesale and retail distribution of high quality fashion products under the internationally known ESPRIT brand name in Europe, Asia Pacific and Canada, together with Red Earth cosmetics, skin and general body care products.

	2001	**2000**
	HK$'000	*HK$'000*
Turnover		
Sales of goods	8,030,531	7,196,884
Royalty Income	73,346	71,309
Commission income	5,185	9,113
	8,109,062	7,277,306
Other revenues		
Interest income	45,730	27,555
Others	22,094	36,867
	67,824	64,422
Total revenues	8,176,886	7,341,728

The turnover and contribution to operating profit after finance costs by principal activities and geographical markets are as follows:

	Turnover		Contribution to Operating Profit after Finance Costs	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysis by principal activities				
Wholesale	4,555,974	3,761,072	986,474	563,093
Retail	3,474,557	3,435,812	119,483	270,769
Others	78,531	80,422	33,293	37,505
	8,109,062	7,277,306	1,139,250	871,367
Analysis by principal geographical markets				
Germany	3,928,213	3,296,078	788,524	504,533
Hong Kong	1,093,221	1,078,536	71,237	97,951
Belgium and the Netherlands	1,003,370	817,180	163,356	103,020
Other Asia Pacific countries	1,257,031	1,439,486	51,222	115,334
Other European countries	755,550	576,320	31,618	13,024
Others	71,677	69,706	33,293	37,505
	8,109,062	7,277,306	1,139,250	871,367

3. Operating Profit

	2001	**2000**
	HK$'000	*HK$'000*
Operating profit is arrived at after crediting and charging the following:		
Crediting		
Income from listed investments	3	2
Provision for doubtful debts written back	8,624	–
Provision for obsolete stock written back	25,725	–
Profit on disposal of listed investments	365	–
Exchange gain	–	1,861
Charging		
Auditors' remuneration	6,084	6,142
Depreciation and amortization		
– Owned assets	186,824	163,748
– Assets held under finance leases	1,660	2,850
– Trademarks	20,341	20,341
Exchange loss	26,290	–
Loss on disposal of fixed assets	9,478	13,983
Loss on disposal of interest in an associated company	–	2,837
Operating lease rental expenses		
– Land and buildings	621,978	608,181
– Others	5,375	3,514
Provision for doubtful debts	–	34,098
Retirement benefit costs *(note 8)*	5,411	–
Provision for diminution in value of an unlisted investment	1,887	5,893
Provision for obsolete stock	–	42,375

4. Finance Costs

	2001	2000
	HK$'000	*HK$'000*
Interest on short-term bank loans, overdrafts and other loans wholly repayable within five years	38,035	37,614
Interest element of finance leases	255	298
	38,290	37,912

5. Taxation

	2001	2000
	HK$'000	*HK$'000*
Company and its subsidiaries:		
Hong Kong profits tax	32,807	45,459
Overseas taxation net of overprovision for prior years of HK$33,050,000 (2000: HK$20,767,000)	477,243	300,113
Deferred taxation *(note 22)*	2,348	(1,019)
	512,398	344,553
Associated companies – overseas taxation	61	4,672
	512,459	349,225

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year.

Overseas taxation has been calculated at the rates of taxation prevailing in the countries in which the Group operates.

	2001	2000
	HK$'000	*HK$'000*
Deferred taxation for the year which has not been credited amounts to:		
Accelerated depreciation allowances	(33,779)	(18,876)
Tax losses	(42,160)	(2,638)
Other timing differences	(733)	(8,490)
	(76,672)	(30,004)

6. Dividends

	2001	2000
	HK$'000	*HK$'000*
Interim dividend paid of 4.8 Hong Kong cents (2000: 3.8 Hong Kong cents) per share	53,993	42,403
Proposed final dividend of 12 Hong Kong cents (2000: 11.2 Hong Kong cents) per share	137,101	125,474
	191,094	167,877

7. Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$575,329,000 (2000: HK$460,061,000) and on the weighted average number of shares in issue during the year of 1,124,643,688 (2000:1,113,522,594).

The calculation of fully diluted earnings per share is based on the profit attributable to shareholders of HK$575,329,000 (2000: HK$460,061,000), and on the weighted average number of shares in issue during the year of 1,124,643,688 (2000: 1,113,522,594) plus the weighted average number of 23,270,717 shares (2000: 37,908,558 shares) deemed to be issued at no consideration on the assumption that all outstanding share options granted under the share option scheme had been exercised at July 1, 2000.

8. Retirement Benefit Costs

Pursuant to the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), the Group has enrolled all Hong Kong employees into a MPF Scheme from December 1, 2000. The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong.

Under the MPF Ordinance, employers and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,000 per employee per month. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. There were no forfeited contributions under the MPF Scheme.

Contributions totaling HK$788,000 (2000: Nil) were payable to the MPF Scheme at the year-end and are included in creditors and accrued charges.

9. Directors' and Senior Management's Emoluments

(a) Directors' remuneration

The aggregate amounts of emoluments receivable by Directors of the Company during the year are as follows:

	2001 *HK$'000*	**2000** *HK$'000*
Fees*		
– Non-executive Directors	620	620
Salaries, housing and other allowances, benefits in kind including deemed benefit arising from exercise of share options		
– Executive Directors	78,625	19,162
Bonuses		
– Executive Directors	8,743	9,542
	87,988	29,324

* *The amount includes directors' fees of HK$470,000 (2000: HK$470,003) paid to Independent Non-executive Directors.*

The emoluments of the Directors fell within the following bands:

Emoluments Band	Number of Directors 2001	2000
Nil – HK$ 1,000,000	4	6
HK$ 1,500,001 – HK$ 2,000,000	–	1
HK$ 3,500,001 – HK$ 4,000,000	–	1
HK$ 5,000,001 – HK$ 5,500,000	1	–
HK$ 6,500,001 – HK$ 7,000,000	–	1
HK$ 7,500,001 – HK$ 8,000,000	–	2
HK$ 8,000,001 – HK$ 8,500,000	1	–
HK$17,500,001 – HK$18,000,000	1	–
HK$20,000,001 – HK$20,500,000	1	–
HK$36,000,001 – HK$36,500,000	1	–
	9	11

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include three (2000: three) Directors whose emoluments are reflected in the analysis presented above.

The emoluments receivable by the remaining two (2000: two) highest paid individuals during the year are as follows:

	2001 *HK$'000*	2000 *HK$'000*
Salaries, housing and other allowances, benefits in kind including deemed benefit arising from exercise of share options	53,642	13,730
Bonuses	3,517	3,937
	57,159	17,667

Emoluments Band	Number of Individuals 2001	2000
HK$ 8,500,001 – HK$ 9,000,000	–	2
HK$27,500,001 – HK$28,000,000	1	–
HK$29,000,001 – HK$29,500,000	1	–
	2	2

10. Trademarks

	2001 *HK$'000*	2000 *HK$'000*
At the beginning of the year	742,451	762,792
Less: Amortization	(20,341)	(20,341)
At the end of the year	722,110	742,451

11. Fixed Assets

	Freehold land outside Hong Kong	Long-term leasehold land in Hong Kong	Buildings	Leasehold improvements and fixtures	Plant and machinery	Furniture and office equipment	Motor vehicles and launch	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost								
At July 1, 2000	23,558	25,931	65,063	857,138	10,013	383,477	8,967	1,374,147
Exchange translation	(2,612)	–	(3,559)	(88,988)	(768)	(39,285)	(335)	(135,547)
Additions	4,290	–	5,402	327,359	322	106,552	1,036	444,961
Disposals	(205)	–	–	(68,849)	(1,763)	(37,341)	(570)	(108,728)
At June 30, 2001	25,031	25,931	66,906	1,026,660	7,804	413,403	9,098	1,574,833
Depreciation								
At July 1, 2000	–	2,493	15,446	470,815	8,882	272,843	6,715	777,194
Exchange translation	–	–	(1,132)	(46,252)	(651)	(26,284)	(272)	(74,591)
Charge for the year	–	499	2,434	122,603	467	60,940	1,541	188,484
Disposals	–	–	–	(58,700)	(1,755)	(34,518)	(401)	(95,374)
At June 30, 2001	–	2,992	16,748	488,466	6,943	272,981	7,583	795,713
Net book values								
At June 30, 2001	25,031	22,939	50,158	538,194	861	140,422	1,515	779,120
At June 30, 2000	23,558	23,438	49,617	386,323	1,131	110,634	2,252	596,953

At June 30, 2001, the net book value of furniture and office equipment includes an amount of HK$1,936,000 (2000: HK$3,688,000) in respect of assets held under finance leases.

At June 30, 2001, freehold land and buildings outside Hong Kong with a net book value of HK$31,996,000 (2000: HK$36,650,000) are pledged as security of short-term bank loan facilities.

12. Other Investments

	Group	
	2001	**2000**
	HK$'000	*HK$'000*
Investments listed in Hong Kong, at cost	–	20,075
Unlisted investments, at cost	15,163	15,161
Provision for permanent diminution in value	(7,797)	(5,909)
	7,366	9,252
	7,366	29,327
Market value of listed investments	–	19,396

13. Associated Companies

	2001	2000
	HK$'000	*HK$'000*
Share of net assets	29,980	9,563
Loan to an associated company	49,000	49,000
	78,980	58,563
Unlisted shares, at cost	–	–

The loan to an associated company is unsecured, interest free and has no fixed terms of repayment.

The amounts due from associated companies are unsecured, interest free and have no fixed terms of repayment.

The following is a list of the principal associated companies as at June 30, 2001

Name of associated company	Place of incorporation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital	Principal activities
Tactical Solutions Incorporated	British Virgin Islands	49%	US$100	Investment holding
CRE Esprit Inc.	The People's Republic of China	49%	RMB5,000,000	Retail and wholesale distribution of apparel, accessories and cosmetics products

14. Stocks and Work in Progress

	2001	2000
	HK$'000	*HK$'000*
Raw materials	7,274	14,032
Work in progress	463	2,758
Finished goods	869,682	836,321
Consumables	45,477	40,013
Provision	(131,632)	(157,357)
	791,264	735,767

At June 30, 2001, the carrying amount of stocks that are pledged as security for bank overdrafts amounted to HK$40,865,000 (2000: Nil).

15. Debtors, Deposits and Prepayments

	2001	2000
	HK$'000	*HK$'000*
Trade debtors	439,127	435,758
Deposits	167,488	100,506
Prepayments	34,714	65,702
Other debtors and receivables	74,905	55,027
	716,234	656,993

The ageing analysis of trade debtors is as follows:

	2001	2000
	HK$'000	*HK$'000*
0-30 days	359,565	345,960
31-60 days	40,977	42,030
61-90 days	17,777	15,982
Over 90 days	20,808	31,786
	439,127	435,758

The Group's retail sales to customers are mainly on cash basis. The Group also grants credit period which is usually 30 days to certain wholesale and franchise customers.

16. Creditors and Accrued Charges

	2001	2000
	HK$'000	*HK$'000*
Trade creditors	350,065	358,435
Accruals and provisions	337,306	393,563
Other creditors and payables	59,552	77,539
	746,923	829,537

The ageing analysis of trade creditors is as follows:

	2001	2000
	HK$'000	*HK$'000*
0-30 days	316,147	293,864
31-60 days	23,838	26,618
61-90 days	4,173	6,850
Over 90 days	5,907	31,103
	350,065	358,435

17. Share Capital

	2001	2000
	HK$'000	*HK$'000*
Authorized:		
2,000,000,000 shares of HK$0.10 each	200,000	200,000

	Number of shares of HK$0.10 each	Nominal value
	'000	*HK$'000*
Issued and fully paid:		
Balance at July 1, 1999	1,108,622	110,862
Issue of scrip dividend shares	1,771	177
Exercise of share options	6,166	617
Balance at June 30, 2000	1,116,559	111,656
Balance at July 1, 2000	1,116,559	111,656
Issues of scrip dividend shares *(note (a))*	780	78
Exercise of share options *(note (b))*	25,166	2,517
Balance at June 30, 2001	1,142,505	114,251

(a) At the annual general meeting of the Company held on November 23, 2000, shareholders of the Company approved a final dividend for the year ended June 30, 2000 of 11.2 Hong Kong cents per share of HK$0.10 each. Shareholders may elect to receive fully paid new shares ("Scrip Dividend Shares A") in lieu of cash ("Scrip Dividend Scheme A"). For the purpose of calculating the number of Scrip Dividend Shares A duly allotted, the market value of the Scrip Dividend Shares A was set at HK$7.55 per share, which is equivalent to the average closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five consecutive trading days immediately preceding and including November 23, 2000. Under this Scrip Dividend Scheme A, 2000 final dividends of HK$2,336,793 were settled by the issue of 309,509 Scrip Dividend Shares A at a premium of HK$7.45 each.

At the Directors' meeting of the Company held on February 28, 2001, the Directors of the Company declared an interim dividend for the six months ended December 31, 2000 of 4.8 Hong Kong cents per share of HK$0.10 each to the shareholders. Shareholders could elect to receive fully paid new shares ("Scrip Dividend Shares B") in lieu of cash ("Scrip Dividend Scheme B"). For the purpose of calculating the number of Scrip Dividend Shares B duly allotted, the market value of the Scrip Dividend Shares B was set at HK$8.47 per share, which is equivalent to the average closing prices of the shares on the Stock Exchange for the five consecutive trading days immediately preceding and including March 31, 2001. Under this Scrip Dividend Scheme B, 2001 interim dividends of HK$3,987,922 were settled by the issue of 470,829 Scrip Dividend Shares B at a premium of HK$8.37 each.

(b) During the year, 25,166,000 ordinary shares of HK$0.10 were issued at a premium of the range from HK$2.64 to HK$2.944 each respectively in relation to share options exercised by employees and Directors under the Scheme (defined in (c) below).

(c) On November 17, 1993, the Company adopted a share option scheme (the "Scheme") pursuant to which the Directors may grant options to eligible employees, including Executive Directors of the Company, to subscribe for shares in the Company. In accordance with the terms of the Scheme, the number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Each share option granted under the Scheme entitles the holder to subscribe for one share of HK$0.10 each at a predetermined price. Options granted were divided into one to eight equal fractional installments. The first exercisable date between each installment shall occur at intervals of six calendar months and expiring on the fifth anniversary of the first date of exercise of each installment or 10 years from the date of adoption of the Scheme, whichever is the earlier. At June 30, 2001, there were 47,018,000 options outstanding which allowed the eligible employees to subscribe for shares in the Company at the price from HK$2.64 to HK$6.36 per share.

18. Reserves

	Share premium	**Contributed surplus**	**Translation reserve**	**Retained profit**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at July 1, 1999	981,737	6,602	(114,409)	450,720	1,324,650
Premium arising from issues of scrip dividend shares	13,649	–	–	–	13,649
Premium arising from issues of shares	16,401	–	–	–	16,401
Goodwill on acquisition of additional interest in a subsidiary	–	–	–	(5,530)	(5,530)
Goodwill on acquisition of business from franchisees	–	–	–	(6,578)	(6,578)
Exchange translation	–	–	(22,054)	–	(22,054)
Profit for the year retained by:					
Company and its subsidiaries	–	–	–	284,126	284,126
Associated company	–	–	–	8,058	8,058
Balance at June 30, 2000	1,011,787	6,602	(136,463)	730,796	1,612,722
Attributable to:					
Company and its subsidiaries	1,011,787	6,602	(136,206)	721,254	1,603,437
Associated company	–	–	(257)	9,542	9,285
	1,011,787	6,602	(136,463)	730,796	1,612,722
Balance at July 1, 2000	1,011,787	6,602	(136,463)	730,796	1,612,722
Premium arising from issues of scrip dividend shares *(note 17(a))*	6,247	–	–	–	6,247
Premium arising from issues of shares *(note 17(b))*	66,381	–	–	–	66,381
Exchange translation	–	–	(139,472)	–	(139,472)
Profit for the year retained by:					
Company and its subsidiaries	–	–	–	363,818	363,818
Associated companies	–	–	–	20,417	20,417
Balance at June 30, 2001	1,084,415	6,602	(275,935)	1,115,031	1,930,113
Attributable to:					
Company and its subsidiaries	1,084,415	6,602	(275,667)	1,085,072	1,900,422
Associated companies	–	–	(268)	29,959	29,691
	1,084,415	6,602	(275,935)	1,115,031	1,930,113

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganization in 1993 and the nominal value of the Company's shares issued in exchange thereof net of any goodwill arisen from subsequent acquisitions.

19. Obligations under Finance Leases

	2001	2000
	HK$'000	*HK$'000*
Total minimum lease payments		
– within one year	1,381	2,077
– in the second year	565	1,460
– in the third to fifth year inclusive	452	591
	2,398	4,128
Future finance charges on finance leases	(154)	(362)
Present value of finance lease liabilities	2,244	3,766
The present value of finance lease liabilities		
– within one year	1,303	1,835
– in the second year	519	1,369
– in the third to fifth year inclusive	422	562
	2,244	3,766
Amount due within one year included under current liabilities	(1,303)	(1,835)
	941	1,931

20. Long-term Bank Loan

	2001	2000
	HK$'000	*HK$'000*
Wholly repayable within 5 years		
– unsecured	–	381,970
Amount due within one year included under current liabilities	–	(155,906)
	–	226,064

	2001	2000
	HK$'000	*HK$'000*
The maturity of the long-term bank loan is as follows:		
– within one year	–	155,906
– in the second year	–	155,906
– in the third to fifth year inclusive	–	70,158
	–	381,970

21. Bank Overdrafts

	2001	2000
	HK$'000	*HK$'000*
Secured	40,865	–
Unsecured	14,739	14,523
	55,604	14,523

22. Deferred Taxation

	2001	2000
	HK$'000	*HK$'000*
At the beginning of the year	82	1,522
Transfer from / (to) profit and loss account *(note 5)*	2,348	(1,019)
Exchange translation	(43)	(421)
At the end of the year	2,387	82
Provided in the financial statements in respect of:		
Accelerated depreciation allowances	6,819	82
Other timing differences	(4,432)	–
	2,387	82

The potential assets for deferred taxation for which no provision has been made in the financial statements amount to:

	2001	2000
	HK$'000	*HK$'000*
Accelerated depreciation allowances	2,622	36,401
Tax losses	16,982	59,142
Other timing differences	8,320	9,053
	27,924	104,596

23. Notes to Consolidated Cash Flow Statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2001	2000
	HK$'000	*HK$'000*
Profit before taxation	1,159,728	884,097
Interest income	(45,730)	(27,555)
Interest expense	38,035	37,614
Interest element of finance leases	255	298
Amortization of trademarks	20,341	20,341
Depreciation	188,484	166,598
Loss on disposal of fixed assets	9,478	13,983
Profit on disposal of listed investment	(365)	–
Loss on disposal of interest in an associated company	–	2,837
Income from listed investment	(3)	(2)
Share of profits of associated companies	(20,478)	(12,730)
Provision for diminution in value of an unlisted investment	1,887	5,893
Increase in stocks and work in progress	(55,497)	(78,672)
Increase in debtors, deposits and prepayments	(58,871)	(132,398)
Decrease in amounts due from associated companies	10,274	3,359
(Decrease)/increase in creditors and accrued charges	(82,614)	217,864
Effect of foreign exchange rate changes	(80,356)	(12,650)
Net cash inflow from operating activities	1,084,568	1,088,877

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK$'000	Minority interests HK$'000	Long-term bank loan HK$'000	Obligations under finance leases HK$'000
Balance at July 1, 1999	1,092,599	1,045	533,445	5,035
Cash inflow/(outflow) from financing	17,018	–	(153,548)	(2,450)
Issue of scrip dividend shares	13,826	–	–	–
Share of exchange reserve	–	1,726	–	–
Increase in interest in subsidiaries	–	9,417	–	–
Waiver of loan from a minority shareholder	–	(9,215)	–	–
Inception of new finance leases	–	–	–	1,510
Share of net profit attributable to minority shareholders	–	74,811	–	–
Distribution to a non-affiliated partner of a limited partnership	–	(60,212)	–	–
Exchange difference	–	87	2,073	(329)
Balance at June 30, 2000	1,123,443	17,659	381,970	3,766
Balance at July 1, 2000	1,123,443	17,659	381,970	3,766
Cash inflow/(outflow) from financing	68,898	–	(382,053)	(1,494)
Issues of scrip dividend shares (note 17(a))	6,325	–	–	–
Inception of new finance leases	–	–	–	335
Share of net profit attributable to minority shareholders	–	71,940	–	–
Distribution to a non-affiliated partner of a limited partnership	–	(71,399)	–	–
Exchange difference	–	4	83	(363)
Balance at June 30, 2001	1,198,666	18,204	–	2,244

(c) Analysis of the balance of cash and cash equivalents

	2001 HK$'000	2000 HK$'000
Short-term bank deposits	7,855	160,538
Bank balances and cash	435,697	574,334
Unsecured short-term bank loans	–	(13,223)
Bank overdrafts	(55,604)	(14,523)
	387,948	707,126

24. Operating Lease Commitments

	2001	2000
	HK$'000	*HK$'000*
The total future minimum lease payments under non-cancelable operating leases are as follows:		
Land and buildings		
– within one year	605,132	456,910
– in the second to fifth year inclusive	1,598,340	1,041,498
– after the fifth year	1,364,879	711,548
	3,568,351	2,209,956
Other equipment		
– within one year	14,259	8,214
– in the second to fifth year inclusive	9,047	6,446
– after the fifth year	–	–
	3,591,657	2,224,616

The operating lease rentals of certain retail outlets are based on the higher of a minimum guaranteed rental and a sales level based rental. The minimum guaranteed rental has been used to arrive at the above commitments.

25. Commitments

(a) Capital commitments

	2001	2000
	HK$'000	*HK$'000*
Contracted but not provided for	175,628	7,432
Authorized but not contracted for	87,814	89,970
	263,442	97,402

(b) Foreign exchange contracts

At June 30, the notional amounts of the Group's foreign exchange contracts are as follows:

	2001	2000
	HK$'000	*HK$'000*
Forward contracts	170,371	160,452
Option contracts	–	28,765
	170,371	189,217

Foreign exchange contracts are entered into primarily to protect the Group from the impact of currency fluctuation during the normal course of business.

26. Related Party Transactions

In addition to directors' emoluments disclosed in note 9, in the ordinary course of business and on normal commercial terms, the Group entered into transactions with the related companies during the year. Details relating to these related party transactions are as follows:

	2001	**2000**
	HK$'000	*HK$'000*
Transactions with Associated Companies		
Sales of finished goods	157,150	140,766
Royalty received	6,175	3,121
Other income	171	202

27. Principal Subsidiaries

The following are the principal subsidiaries as at June 30, 2001 which, in the opinion of the Directors, principally affect the results and net operating assets of the Group. To give details of other subsidiaries would in the opinion of the Directors result in particulars of excessive length.

Name of subsidiary	**Place of incorporation/ operation**	**Attributable equity interest to the Group**	**Issued and fully paid share capital/ registered capital** *(note a)*	**Principal activities**
Aromatic Beauty Products Pty Limited	Australia	59.6%	A$2	Wholesale distribution of cosmetics and skin and general body care products
Esprit Asia (Distribution) Limited	Hong Kong	100%	HK$9,000	Investment holding
Esprit Belgie Retail N.V.	Belgium	100%	BEF47,500,000	Retail distribution of apparel and accessories
Esprit Belgie Wholesale N.V.	Belgium	100%	BEF2,500,000	Wholesale distribution of apparel and accessories
Esprit Benelux Wholesale B.V.	The Netherlands	100%	NLG250,000	Wholesale distribution of apparel and accessories
Esprit China Distribution Limited	British Virgin Islands/ Hong Kong	100%	US$100	Investment holding
Esprit Corporate Services Limited	British Virgin Islands/ Hong Kong	100%	US$100	Investment holding
Esprit de Corp (1980) Ltd.	Canada	100%	CAD1,000,100	Distribution of apparel and accessories
Esprit de Corp Denmark A/S	Denmark	100%	DKK10,000,000	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Far East) Limited	Hong Kong	100%	HK$1,200,000	Sourcing of apparel and accessories

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital *(note a)*	Principal activities
Esprit de Corp France S.A.	France	100%	FRF20,000,000	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Malaysia) Sdn Bhd.	Malaysia	100%	MYR500,000	Retail distribution of apparel and accessories
Esprit de Corp (Worldwide) Limited	Hong Kong	100%	HK$1,000	Sourcing of apparel
Esprit Design und Product Development GmbH	Germany	100%	DM500,000	Design of apparel and accessories
Esprit Distribution Limited	Hong Kong	100%	HK$2,000,000	Wholesale distribution of apparel and accessories
Esprit Europe AG	Germany	100%	EUR37,000,000	Investment holding
Esprit Europe Services GmbH	Germany	100%	EUR2,500,000	Sourcing of merchandise and placement of orders
Esprit Far East (Investments III) Ltd.	British Virgin Islands/ Hong Kong	100%	US$100	Investment holding
Esprit Handelsgesellschaft mbH	Austria	100%	ATS500,000	Wholesale distribution of apparel and accessories
Esprit Holdings GmbH	Germany	100%	DM10,000,000	Investment holding
Esprit Image & Product Development Limited	United Kingdom	100%	GBP2	Group image direction
Esprit International (limited partnership)	California, U.S.A.	63%	–	Licensing of trademarks
Esprit Nederland Retail B.V.	The Netherlands	100%	NLG250,000	Retail distribution of apparel and accessories
Esprit Retail GmbH	Germany	100%	DM9,000,000	Retail distribution of apparel and accessories
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HK$10,000	Retail distribution of apparel and accessories
Esprit Retail Pte Ltd	Singapore	100%	S$3,000,000	Retail distribution of apparel and accessories
Esprit (Retail) Pty Ltd	Australia	100%	A$200,000	Retail distribution of apparel and accessories
Esprit Retail (Taiwan) Limited	Hong Kong/Taiwan	100%	HK$9,000	Retail distribution of apparel and accessories
Esprit Singapore Pte Limited	Singapore	100%	S$100,000	Manufacturing and sourcing of apparel
Esprit Sweden AB	Sweden	100%	SEK200,000	Wholesale and retail distribution of apparel and accessories

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital *(note a)*	Principal activities
Esprit Wholesale GmbH	Germany	100%	EUR5,000,000	Wholesale distribution of apparel and accessories
Garment, Accessories and Cosmetics Esprit Retail (Macau) Limited	Macau	100%	MOP100,000	Retail distribution of apparel and accessories
Red Earth (Hong Kong) Limited	Hong Kong	92%	HK$10,000	Retail distribution of cosmetics and skin and general body care products
Red Earth International Holdings Limited	British Virgin Islands/ Hong Kong	60.8%	US$1,668,000	Investment holding
Red Earth Licensing Limited	British Virgin Islands/ Hong Kong	60.8%	US$100	Licensing of trademarks
Red Earth New Zealand Limited	New Zealand	59.6%	NZ$100	Retail distribution of cosmetics and skin and general body care products
Red Earth Production Limited	Hong Kong	60.8%	HK$10,000	Wholesale distribution of cosmetics and skin and general body care products
Red Earth Pty Limited	Australia	59.6%	A$100	Retail distribution of cosmetics and skin and general body care products
Red Earth (Taiwan) Limited	Hong Kong/Taiwan	100%	HK$2	Retail distribution of cosmetics and skin and general body care products
Red Earth Trading Pty Limited	Australia	59.6%	A$2	Wholesale distribution of cosmetics and skin and general body care products
Sijun Fashion Design (Shenzhen) Co. Ltd.	The People's Republic of China	100%	US$700,000 registered capital	Sample development

Notes:

(a) All are ordinary share capital unless otherwise stated.

(b) Except for Red Earth International Holdings Limited which issued a convertible note for the amount of HK$22,013,100 on August 27, 1998, none of the subsidiaries had any loan capital subsisting at June 30, 2001 or at any time during the year.

(c) Shareholdings in Red Earth International Holdings Limited is being litigated.

3. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The following is an unaudited pro forma statement of adjusted net tangible assets of the Enlarged Group, assuming the completion of the Proposed Acquisition had been effected on December 31, 2001.

	HK$'000	*HK$'000*
THE GROUP		
Audited consolidated net assets of the Group as at June 30, 2001	2,044,364	
Add: Proposed 2000/2001 final dividend *(Note 1)*	137,101	
	2,181,465	
Unaudited consolidated net profit of the Group for the six months ended December 31, 2001	385,196	
Allotment of Shares upon exercise of share options *(Note 2)*	3,571	
Cash dividend paid *(Note 3)*	(120,227)	
Exchange differences arising on translation of overseas subsidiaries and associated companies not recognized in the profit and loss account	37,372	
Unaudited consolidated net assets of the Group before the completion of the Proposed Acquisition		2,487,377
Less: Intangible assets of the Group as at December 31, 2001		(713,816)
Unaudited consolidated net tangible assets of the Group before the completion of the Proposed Acquisition		1,773,561
ADD: THE PROPOSED ACQUISITION		
Adjusted audited net tangible assets of Esprit International as at December 31, 2001 *(Note 4)*	2,805	
The Group's 63% attributable share of the audited net tangible assets of Esprit International already consolidated prior to the completion of the Proposed Acquisition adjusted for partners' distribution	(1,767)	
Increase in share of audited net tangible assets upon acquisition of additional 37% interest		1,038
OTHER ADJUSTMENTS TO NET TANGIBLE ASSETS		
Purchase consideration for the Proposed Acquisition *(Note 5)*		(1,170,000)
Unaudited pro forma adjusted net tangible assets of the Enlarged Group		604,599
Unaudited consolidated net tangible asset value per Share of the Group before the completion of the Proposed Acquisition *(Note 6)*		HK$1.55
Unaudited pro forma adjusted net tangible asset value per Share of the Enlarged Group *(Note 6)*		HK$0.53

Notes:

1. In accordance with the revised SSAP 9, the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively and the adjustment of HK$137,101,000 represents the restatement of the net assets of the Group for the proposed final dividend for the year ended June 30, 2001 included in the financial statements at June 30, 2001.

2. This represents the proceeds from the issue of 1,332,000 Shares in relation to share options exercised by employees and Directors up to December 31, 2001 under the share option scheme adopted by the Company on November 17, 1993.

3. The dividend paid of HK$120,227,000 represents the following:

	HK$
Dividend entitlement of Shareholders at June 30, 2001	137,101,000
Interim dividend for the alignment of 2000/2001 final dividend	160,000
Dividends taken as scrip	(17,034,000)
	120,227,000

(i) The dividend entitlement of Shareholders at June 30, 2001 represents the 2000/2001 final dividend of HK$0.12 per Share applied to all Shares outstanding at that date.

(ii) The interim dividend for the alignment of 2000/2001 final dividend represents the dividend paid to holders of 1,332,000 new Shares issued under the share option scheme *(note 2)* after June 30, 2001 and before the 2000/2001 final dividend closing entitlement day of HK$160,000.

(iii) Of the 2000/2001 final dividend, Shareholders of 141,948,000 shares elected to receive scrip dividends instead of cash payments which would have been HK$17,034,000 and resulted in 1,936,000 scrip dividend Shares being issued. These scrip dividend Shares were accounted for as having been issued at HK$8.8 per Share, representing the average closing price of the Shares quoted on the Stock Exchange for the 5 consecutive trading days immediate preceding and including Monday, November 26, 2001.

4. This represents the audited net tangible assets of Esprit International as at December 31, 2001 of US$7,469,400 (equivalent to approximately HK$58,261,000), as set out in the accountants' report on Esprit International in Appendix II to this circular adjusted as follows:

	US$
Total net assets	9,179,600
Less: Trademarks	(1,710,200)
Audited net tangible assets	7,469,400
Less: Partners distribution *(note 4(i))*	(7,109,732)
Adjusted audited net tangible assets	359,668
Equivalent to	HK$2,805,000

(i) Esprit International distributed US$7,109,732 on February 15, 2002 to its partners. In this statement, the distribution is treated as if it was paid on December 31, 2001 and before the Proposed Acquisition.

5. This represents the purchase consideration of US$150,000,000 (equivalent to approximately HK$1,170,000,000) payable to the Seller for the Proposed Acquisition pursuant to the Asset Acquisition Agreement and on the assumption that the amount will be paid in cash from internal funds or external borrowings.

6. The calculation is based on the number of issued Shares of 1,146,358,831 of the Company as at the Latest Practicable Date and that Closing of the Proposed Acquisition will not involve any issue of share that will change the total number of issued shares.

4. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the unaudited pro forma statement of assets and liabilities of the Enlarged Group, assuming the completion of the Proposed Acquisition had been effected on December 31, 2001. The unaudited consolidated net assets of the Group as at December 31, 2001 stated below was extracted from the interim report for the six months ended December 31, 2001 which already consolidates the Group's share of 63% of the net assets of Esprit International, after taking into account the 37% interest owned by Esprit de Corp..

	Unaudited consolidated net assets of the Group as at December 31, 2001	**Adjustments**		**Unaudited pro forma adjusted net assets of the Enlarged Group as at December 31, 2001**
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Intangible Assets	713,816	1,168,962	*1*	1,882,778
Fixed Assets	875,507			875,507
Other Investments	7,366			7,366
Associated Companies	92,021			92,021
Current Assets				
Stocks and work in progress	925,503			925,503
Debtors, deposits and prepayments	758,692			758,692
Amounts due from associated companies	28,954			28,954
Short-term bank deposits	102,507	(102,507)	*2*	–
Bank balances and cash	738,701	(677,493)	*2*	
		(20,508)	*3*	40,700
	2,554,357			1,753,849
Current Liabilities				
Creditors and accrued charges	(965,382)			(965,382)
Taxation	(714,795)			(714,795)
Obligation under finance leases	(882)			(882)
Bank overdrafts	(47,202)			(47,202)
	(1,728,261)			(1,728,261)
Net Current Assets	826,096			25,588
Total Assets Less Current Liabilities	2,514,806			2,883,260
Bank borrowings	–	(390,000)	*4*	(390,000)
Obligation under finance leases	(508)			(508)
Deferred taxation	(5,375)			(5,375)
Minority Interests	(21,546)	20,508	*3*	
		1,038	*5*	–
Net Assets	2,487,377	–		2,487,377

Notes:

1. This represents the intangible assets, being trademarks and goodwill, to be acquired as part of the Proposed Acquisition. In the accounts of the Company, the intangible assets arising from the Proposed Acquisition will be allocated between the intellectual property rights to be acquired from the Seller, the trademarks with Esprit International and goodwill. The valuation of assets acquired under the Proposed Acquisition is described in Appendix I of this circular.

2. This represents the element of the purchase consideration which is expected to be sourced from the existing internal funds of the Group of US$100 million (HK$780,000,000).

3. On February 15, 2002, Esprit International, being a 63% subsidiary of the Group, distributed US$2,630,601 to Esprit de Corp. In this statement, the distribution is treated as if it was paid on December 31, 2001 and before the Proposed Acquisition.

4. This represents the element of the purchase consideration of US$50 million which is expected to be financed by existing available banking facilities.

5. This represents the minority interests eliminated as a result of the Proposed Acquisition of the 37% interest International to be acquired from Esprit de Corp.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since June 30, 2001, the date to which the latest audited financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(i) As at the Latest Practicable Date, the interests of the Directors, chief executives and their associates in the securities of the Company as recorded in the register kept by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

	Shares of the Company				
Name of Director	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Other Interests**	**Total**
Michael YING Lee Yuen	–	–	502,656,352*	–	502,656,352*
CHHIBBER Surinder	3,090,385	–	–	–	3,090,385
Jürgen Alfred Rudolf FRIEDRICH	113,485,676	51,401	–	–	113,537,077
Connie WONG Chin Tzi	1,854,597	–	–	–	1,854,597

* *502,656,352 shares were held by Great View International Limited which is wholly owned by Mr. Michael YING Lee Yuen.*

(ii) As at the Latest Practicable Date, options exercisable for an aggregate of 35,000,000 Shares had been granted to the following Directors under 1993 Scheme:

Director	**Number of Shares subject to share options exercisable under the 1993 Scheme**
Michael YING Lee Yuen	15,000,000
CHHIBBER Surinder	8,000,000
Heinz Jürgen KROGNER-KORNALIK	4,000,000
John POON Cho Ming	8,000,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had or was deemed to have any interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part 1, of the Schedule to, the SDI Ordinance), or which are required, pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant to the business of the Group taken as a whole.

Since June 30, 2001, the date to which the latest published audited financial statements of the Company were made up, none of the Directors or any professional advisers named in paragraph 9 of this Appendix has any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDER

As at the Latest Practicable Date and so far is known to the Directors, the following person was directly or indirectly, interested in 10 per cent. or more of the issued share capital carrying rights to vote at general meetings of any member of the Group:

Name of substantial Shareholder	**Name of company**	**No. of Shares**	**Percentage of Shares held**
Great View International Limited*	Esprit Holdings Limited	502,656,352	43.8%

* *This interest is also included as corporate interest of Mr. Michael YING Lee Yuen as disclosed under "Disclosure of Interest" above.*

Save as disclosed above, there is no person known to the Directors who, as at the Latest Practicable Date, was directly or indirectly interested in 10 per cent. or more of the nominal value of the issued share capital of any member of the Group.

4. INDEBTEDNESS

At the close of business on December 31, 2001, being the latest practicable date for the purpose of this indebtedness summary prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$48,592,000, comprising bank overdrafts of approximately HK$47,202,000 and obligations under finance leases of approximately HK$1,390,000.

Of these borrowings, approximately HK$26,942,000 relates to a bank overdraft facility secured by the equivalent value of pledged inventories. In addition, a short term revolving facility of approximately HK$25,221,000, of which HK$7,798,000 was utilized as at December 31, 2001, is secured by certain overseas freehold land and buildings.

The Group was obligated to repay a finance lease of HK$1,390,000 in respect of certain fixed assets of the Group carrying an aggregate net book value of HK$1,184,000 as at December 31, 2001.

Save as aforesaid and apart from intra-group liabilities, at the close of business on December 31, 2001, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debts, securities or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have, for the purpose of compiling this indebtedness summary, been translated into Hong Kong dollars at the approximate exchange rates prevailing as at the close of business on December 31, 2001.

Save as disclosed in this circular and the banking facilities to be utilized for the financing of the Proposed Acquisition, the Board is not aware of any material change in the indebtedness position of the Group subsequent to December 31, 2001.

5. WORKING CAPITAL

As at the Latest Practicable Date, after taking into account the Enlarged Group's available banking facilities, the banking facilities to be utilized for financing the Proposed Acquisition and internally generated funds, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements.

6. LITIGATION

In response to an objection by Esprit International to the Seller's recent move to distribute ESPRIT products through mass retailers, the Seller initiated a demand for arbitration and court proceedings in December 2001, which primarily alleged mismanagement of Esprit International. The Group has received legal advice to the effect that the claims are entirely without merit and have filed counterclaims against the Seller. The Asset Acquisition Agreement provides that such claims or proceedings will be stayed upon signing of the Asset Acquisition Agreement and that, upon Closing, such claims and proceedings will be dismissed.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claims of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, a subsidiary of the Group has entered into a service agreement with Mr. Heinz Jürgen KROGNER-KORNALIK dated November 11, 1994 as amended by an amendment agreement dated February 15, 1996. The service agreement took effect from January 9, 1995 and continues thereafter until terminated by either party giving the other party not less than twelve (12) months' notice of termination, provided that such notice will only take effect from or after December 31, 2003.

Mr. Simon LAI Sau Cheong was appointed as director of the Company for a three-year term expiring on November 26, 2002 but is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

8. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by a member of the Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

(a) the deed of settlement dated December 18, 2001 between the Company, Red Earth International Holdings Limited ("RE International"), Red Earth Investment

Limited ("RE Investment"), Mr. Steven Ko Soon How ("Mr. Ko") and Jeckson Management Limited ("Jeckson") pursuant to which (i) Jeckson had transferred to RE Investment its 39 per cent. interests in RE International; (ii) the proceedings initiated by Jeckson against the Company, RE Investment and RE International and the share option proceedings initiated by RE Investment against Jeckson were dismissed and Mr. Ko and Jeckson had assumed various additional obligations and responsibilities in consideration of HK$15,000,000 paid by the Company and RE Investment; and

(b) the Asset Acquisition Agreement.

Save and except disclosed above, there are no contracts, not being contracts in the ordinary course of business, entered into by the Company and its subsidiaries within the two years immediately preceding the Latest Practicable Date of this circular, which are or may be material.

9. CONSENTS

Rothschild is an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong). PricewaterhouseCoopers, certified public accountants, is the reporting accountant and auditor of the Company. As at the date of this circular, each of Rothschild, PricewaterhouseCoopers and the Independent Valuer has given and has not withdrawn their respective written consent to the issue of this circular with the inclusion of their letters as set out in this circular, and references to their names in the form and context in which they respectively appear.

Each of Rothschild, PricewaterhouseCoopers and the Independent Valuer is not interested beneficially in the share capital of any member of the Group nor does each of Rothschild, PricewaterhouseCoopers and the Independent Valuer have any rights to subscribe or to nominate persons to subscribe for securities in any member of the Group. Each of Rothschild, PricewaterhouseCoopers and the Independent Valuer has no interest, either directly or indirectly, in the promotion of, or in the assets of, the Group which have been, since June 30, 2001 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group.

10. MISCELLANEOUS

(a) The company secretary of the Company is Mr. John POON Cho Ming, a qualified solicitor in Hong Kong, England and Wales, and a barrister and solicitor in Alberta, Canada.

(b) The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM11, Bermuda. The head office of the Company is located at 10/F., 11 Yuk Yat Street, Tokwawan, Kowloon, Hong Kong. The European Headquarter is located at Vogelsanger Weg 49, 40470 Düsseldorf, Germany.

(c) The principal share registrar and transfer office of the Company is Butterfield Corporate Services Limited, 11 Rosebank Centre, Bermudiana Road, Hamilton, Bermuda. The Hong Kong share registrar and transfer office of the Company is Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

(d) The English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the offices of Deacons, 5th Floor, Alexandra House, Central, Hong Kong up to and including March 27, 2002:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for the two financial years ended June 30, 2000 and June 30, 2001 and its interim results announcement for the six months ended December 31, 2001;

(c) the letter from the Independent Board Committee;

(d) the letter from Rothschild to the Independent Board Committee, the text of which is set out in this circular;

(e) the letter from the Independent Valuer, the text of which is set out in Appendix I of this circular;

(f) the accountants' report on Esprit International set out in Appendix II of this circular;

(g) the written consents referred to under "Consents" in this Appendix;

(h) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix;

(i) statement of adjustment; and

(j) the service contracts referred to under "Service Contracts" in this Appendix.

esprit holdings ltd.

Dear Sir or Madam,

We refer to the circular dated March 13, 2002. Capitalised terms used herein shall bear the same meaning as defined in the circular.

Your attention is drawn to Page 1 of the Letter from the Board set out in the circular. Please note that the Stock Exchange has granted its approval on March 13, 2002 under the Listing Rules in relation to the acceptance of a written certificate of shareholders' approval from Mr. Michael YING Lee Yuen and Mr. Jürgen Alfred Rudolf FRIEDRICH in lieu of a resolution to be passed at a shareholders' meeting of the Company to approve the Asset Acquisition Agreement and the transaction contemplated thereunder. Therefore the circular is only for your information purpose and there will not be any Shareholders' meeting for the purpose of approving the Proposed Acquisition.

Yours faithfully,
For and on behalf of the Board of
Esprit Holdings Limited
John Poon Cho Ming
Executive Director

10/f 11 yuk yat street
tokwawan kowloon
hong kong
t 852 2765 4321
f 852 2362 5576